

SOCIAL CAPITAL

Global and Local Perspectives



STAKES

NATIONAL RESEARCH AND DEVELOPMENT CENTRE
FOR WELFARE AND HEALTH

GOVERNMENT INSTITUTE FOR ECONOMIC RESEARCH

SOCIAL CAPITAL

Global and Local Perspectives

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GOVERNMENT INSTITUTE FOR ECONOMIC RESEARCH

HELSINKI 2000

ISBN 951-561-339-6
ISSN 0788-4990

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J-PAINO OY, HELSINKI 2000
Layout: Markku Book

Foreword

The concept of social capital gained popularity during the 1990s, thanks largely to the work of Robert Putnam. Numerous others, such as World Bank researchers and European social scientists and economists, have also made contributions on the topic. There is increasing evidence from both macro- and micro-level studies that social infrastructure or social capital plays an important role in the processes of development and growth.

Social capital provides a conceptual basis for economists and social scientists to speak to each other and better understand the interface between their disciplines. This is a rare opportunity which both groups welcome. The Government Institute for Economic Research and the National Research and Development Centre for Welfare and Health in Finland have arranged a series of seminars and published seminar proceedings to examine the issue. These seminars have been attended by world-renowned experts in this field from the scientific community, national administrations and UN bodies.

At the same time it seems that the concept of social capital is being applied practically in the field of development policy, helping to foster an understanding of the processes in transition countries. It also seems to have practical importance here in Finland in the realm of regional economic policy. The problem of social exclusion is naturally where the concept of social capital may have more relevance in the future, and its contribution to the theory of socially sustainable development may prove to be of great value.

This book presents both the latest thinking on the concept of social capital and some of its applications. It also includes some of the criticism of the concept. It is hoped that this blend of contributions will help place the idea of social capital in its proper context.

HELSINKI, DECEMBER 2000

Reino Hjerpppe

Vappu Taipale

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Introduction to the Themes of the Book

Jouko Kajanoja and Jussi Sempura¹

The roots of 'social capital' as a concept are local, having been developed to assess local societies and regions. The ground-breaking research of James Coleman (1988) and Robert Putnam (1993) have been supplemented by studies primarily aimed at evaluating the disparities in development between countries (e.g. Knack and Keefer 1997; LaPorta et al. 1997; Hjerppe 1998; Temple and Johnson 1998).

When comparing country groups or continents and the characteristics of their social capital, the approach is more from a global perspective. Examples in this book include Timo Voipio's article on social capital from the standpoint of developing countries, as well as Pekka Sutela's article on Asia, Africa and Eastern Europe. The global nature of social capital is emphasised by the fact that the institute promoting this concept the most has been the World Bank, which aims to develop it both as a topic of scientific research and a policy-oriented approach. Social capital as used by the World Bank has a global perspective in many connections. The Bank originally developed the concept in conjunction with sustainable development and the study of ecological and economic equilibria in the traditional sense (Serageldin 1996). It has analysed various manifestations of social capital around the world, and also compiles information on studies dealing with social capital.²

The local perspective of social capital is gaining new political meaning. The European Union is not content merely to strengthen regions in Europe, but is rather initiating a programme to mobilise local social capital in order to curb unemployment and isolation, while simultaneously supporting European success in global economic competition. These endeavours are evaluated in Santiago Loranca's article in this book.

¹ We acknowledge with special thanks the assistance of John Rogers and Richard Burton. They did excellent work, John Rogers as a translator and proofreader and Richard Burton as a language consultant including some editing work.

² Michael Woolcock's article includes instructions on how to obtain information on studies.

In Finland, similar analyses are presented in the Report of the Special Parliamentary Committee for the Future (1998). This contains a special section about social capital (pp. 48-50), focusing on the importance of education, as well as productivity and equality, from the standpoint of the potential of individuals. In a study of social capital nearing completion at VATT (Alanen and Kajanoja 2000), the focus is on research findings relating to local social capital and on assessing programmes of action. An important notion in this connection is partnership.

The concept of social capital is thus prevalent in macro-level global studies, meso-level studies such as the article by Aku Alanen and Lea Pelkonen, and in local-level studies. It is also used in micro-level studies, such as research on inter-company and intra-company networks. The articles of Michael Woolcock and Kaj Ilmonen contain reviews of the micro-sociological roots of social capital and - as Pekka Sutela notes in his article - at issue are the basic classical concepts of sociological theory such as values, norms and expectations.

There has yet to be a fundamental analysis of the historical roots of social capital extending back to the classics of economic and social sciences. Prominent names in this respect include Adam Smith, Karl Marx, Emile Durkheim, Max Weber, Thorstein Veblen and many others who have addressed the interaction of social and economic structures.

In his extensive survey of the literature Michael Woolcock evaluates many ideas closely related to social capital. Woolcock's list can be supplemented with the "network" concept. We now talk about network capital (Ledeneva 1998) and the network of social capital (Rose 1998). Research is being carried out on unofficial networks of social aid and economic exchange. Network research has particularly focused on the operative structures of "non-modern" societies, such as the post-socialist transition societies, and systems of unofficial exchange (Ledeneva 1998; Lonkila 1999; Jyrkinen-Pakkasvirta and Poretzkina 1994). There are also examples of Nordic research from the standpoint of network capital (e.g. Aarsæther 1999).

On the other hand, there is also interest in phenomena regarded as more modern. This type of approach is represented by Jan-Erik Johanson's article on networks in the business community (see also Leenders and Gabbay 1999). Those in the modern perspective include forms of local networks, as assessed in Kaj Ilmonen's article, that have arisen alongside global networking. The models presented in Santiago Loranca's article are based on the idea of local operations that perform tasks traditionally regarded as in the domain of central government. Network research also has links to the field of "sociability" which in turn is based on basic questions of social theory. (Giddens: Practices as intermediary links between individuals and institutions)³

³ Giddens, Anthony (1984): *The Constitution of Society*. Cambridge: Polity Press.

The notion of social capital in the context of modern business administration has its roots in the field of institutional business administration (Hjerpe 1998). An important theoretical breakthrough was the linking of social capital to so-called new endogenous growth theory (Romer 1990). Since then, however, theoretical development work has been modest. Research on business administration-oriented social capital has focused on evaluating the connection between variables describing social capital and economic growth via cross-country studies (Kajanoja 1999). An exception is the study of social capital concepts carried out by the World Bank (1998).

"... the most significant virtue of the discourse surrounding 'social capital' is that it helps to bridge orthodox disciplinary and methodological divides among scholars, practitioners, and policymakers" writes Woolcock in his article. On the other hand, Sutela asserts in his article that the promise of a great comprehensive theory of social sciences, considered by many to be embedded in the concept of social capital, has yet to be fulfilled.

Articles on social capital have appeared routinely in the economic and social science journals, as well as in those of other social science disciplines such as political research. They tell as much about the difficulty of building a common terminology as the promises it contains. The huge gap between the disciplines of economics and sociology cannot be bridged immediately, even if this would deepen and broaden the understanding of research topics in various scientific fields.

The tendency of the World Bank to characterise socially sustainable development in terms of projects to bolster social capital (World Bank 1998; see also Wiman 1999, 34-35; Wiman and Partonen 1999) raises one of the problems surrounding the social capital debate. How does social capital fulfil the criteria set for the concept of capital? This topic has been addressed in a World Bank study (Serageldin 1996; see also Hjerpe 1997). It has already been shown that capital does not necessarily experience wear and tear or become stockpiled or exchanged. The old forms of capital such as natural resources or human capital do not fulfil those requirements, nor are they satisfied by the physical capital made by humans. But in order to prove an operatively useful concept, it should be possible to invest in producing capital, or at least promote its utilization - and the investment should pay off.

The World Bank shows that the various definitions of social capital and the views of different scientific fields have the following features in common:

All imply that social relationships and institutions have public good characteristics. Because the benefits of such goods cannot easily be appropriated privately, most rational actors underinvest in maintaining them. Hence, there is a case for public support of social relationships and institutions (World Bank 1998).

The challenge is then to find the social policy measures that support social capital. This is the question that research on social capital should ultimately seek to address.

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This book continues with the assessment of social capital which began in Finland in 1997 and 1998 (Hjerppe 1997; Kajanoja 1997; Kajanoja and Simpura 1998). The articles are primarily the product of presentations made at a seminar held in Helsinki in April 1999.

The collection consists of dual English and Finnish language versions that differ only slightly.

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Michael Woolcock's article includes a detailed survey of the background and birth of the concept of social capital and the relevant literature. It presents an important synthesis and comprehensive analysis of the concept of social capital, even though the focus of the article is on development science and policies. Woolcock divides the definitions of social capital commonly used until now into three groups: the communitarian, network, and institutional viewpoints. He calls his own approach a synergistic viewpoint, according to which social capital is "the norms and social relations embedded in the social structure of societies that enable people to coordinate action to achieve desired goals".

This represents the broadest viewpoint, which embraces the others. Woolcock presents his conclusions on both social capital research and policy applications.

In his article, Joukko Kajanoja emphasises the importance of understanding social capital within the framework of economic capital. This leads to an abstract definition, but according to Kajanoja the clash in social and economic approaches facilitated by this kind of definition will not occur without sparks flying. He asks whether social capital ultimately means the subservience of social life to economic imperialism. As an answer he emphasises that return on capital should be measured using indicators of good life and sustainable development rather than gross domestic product.

Pekka Sutela calls for increased interaction between different disciplines of the social sciences: notions of social capital could facilitate greater dialogue between economics and sociology, but there have been few concrete steps in this direction. Sutela does not believe that social capital is automatically the key to understanding the development gap in the former socialist countries. He ponders why Estonia is succeeding economically and Russia is not, suggesting the main reason is that Estonia has a single clear and common goal, namely aiming to become a part of Europe and striving for EU membership. Russia, on the other hand, does not know where it is going, according to Sutela. Under current conditions in Russia, confidence included in social capital is an especially valuable commodity. It is needed because of the reducing role of monetary transactions as dynamic chains of exchange gain in importance.

Aku Alanen's and Lea Pelkonen's article constitutes a new page in the history of empirical research on social capital. Their study uses a Romerian growth model to investigate the connection between variables measuring

social capital in Finnish provinces with production growth in 1970-1995. The results confirm the connections found in previous cross-country comparisons as well as the conclusions reached in Putnam's (1993) study on Italy. Whereas participation in leisure time activities and municipal investments in social capital are correlated positively with local production growth, participation in politics and special interest organizations is not.

Timo Voipio addresses the connection between social capital and the reduction of poverty on three levels: in northern, southern and north-south global relations, with the emphasis on the latter two. Special attention is given to the policies adopted by international organizations to eliminate poverty. According to this analysis, at the end of the 1990s almost all state development institutions recognised the importance of participatory measures and empowerment of the poor. Voipio argues for the necessity of getting this type of approach implemented in practice, too, and not becoming bogged down focusing on short-sighted economic growth.

Santiago Loranca's article presents justifications for an EU programme aimed at bolstering social capital by supporting local networks among companies and the third sector. Such a deep and constructive local partnership is seen as a viable means of mobilizing local resources to create new types of economic activity, and ultimately to reduce unemployment and curb social exclusion. The economic agents of the third sector play a key role: supporting their activities is believed to create new small-scale social enterprisingness, which can lead to better employment and eventually to new types of entrepreneurship. It is thus companies which become the partners of the third sector in this network approach.

Loranca's contribution indicates how the concept of social capital can be used to shape international programmes in many different ways. It is interesting to note that his article addresses social capital using the mainstream World Bank approach. Jussi Simpura's comments on Loranca's article emphasise that the Nordic countries, for example, display certain institutional and historical features that could facilitate the implementation of the EU's social capital programme; ignoring these features could place the entire programme in jeopardy.

Simpura's comments also accentuate another Nordic feature: the idea of the state as a benevolent institution built by the people themselves. The gap between the state and the civil society is not as wide as appears to be assumed in Loranca's model. "State-penetrated Civil Society", which appears to prevail in Finland, is not a negative expression, but rather conveys that participation by the state is seen as positive in building social capital at the local level.

Reijo Väärälä is critical of the concept of social capital based on his interpretation of the history of the Finnish and Nordic welfare states. Väärälä sees in this development a group of "agreements" regarding the mechanisms, theories and institutions holding society together. Väärälä lists four of these agreements: solidarity agreement, normal job agreement, generation agreement, and gender agreement. These agreements, along with political action, have laid the foundation for social capital and enabled adoption of

related policies fostering further developments of social capital, such as educational policy, labour policy, housing policy and so forth. Vaarala feels that these agreements are weakening, and their meaning as a foundation for policies crumbling. Thus the key elements fostering social capital are also eroding. One consequence is that isolated groups of people are called upon to be self-sufficient and active in situations where outside help would also be needed. According to Vaarala, the key elements of social capital, such as networks, and related rules of action, "do not seem to work well in a situation where the agreements of the welfare state are replaced with market-based agreements and where people lose resources that would be needed in making decisions independently about their own lives."

Kaj Ilmonen's extensive article is similar to Woolcock's, and presents a survey of historical approaches and a critique of the current debate on social capital. Ilmonen pays special attention to the concept of trust in the context of Putnam's (1993) social capital model and Seligman's (1997) form of emphasising differences in the trust between people on one hand and trust in institutions (confidence) on the other. Ilmonen feels that the major similarities between these two types of trust must be taken into account. The most important similarity is that both types apply to the future and its predictability. According to Ilmonen, it is precisely this time perspective inherent in trust not the subject of the trust (people, institutions) that makes it a key mechanism of social action. Ilmonen's hypothesis is that if the future can be controlled, even if only at an imaginary level, this will generate trust - regardless of whether the feeling of controllability is related to people or institutions. Trust between people strengthens when there are institutions supporting it.

The last article in the book is Jan-Erik Johanson's study of control and dissemination of information as an explanation of dispersed network structures in public organizations. Apart from Alanen's and Pelkonen's article, Johanson's study differs from other articles since the concept of social capital is used and tested empirically. Johanson tests the theory that the appearance of gaps, for example, in social networks of jobs can give workers a competitive advantage in the form of more diverse information over what their possible positions in an organization offer. Johanson's results appear to support this assumption; on the other hand, it is difficult for a worker to affect his own network structure and create dispersed networks offering benefits of information availability.



Johanson's theory is based on Granovetter's (1973) interpretation of so-called weak social relationships or the strength of commitments. "Strong" commitments would include those related to membership of recognisable social groups (class, vocational, ethnic, religious groups etc.). "Weak" commitments are those that extend beyond the borders of these groups. According to Granovetter's theory, these weak commitments are more decisive than strong ones when it comes to social integration and related

factors. Ilmonen also mentions Granovetter's theory as one of the key points of departure in the debate on social capital, and Woolcock maintains that Granovetter's thoughts are especially productive from the standpoint of theories of social networks and social capital. This compilation of different writers' views is a good example of the fruitfulness of social capital from the standpoint of debate on sociological theory.

The intuitive appeal of the notion of social capital and its applicability to everything, in the same way as the "third sector" (cf. Ilmonen's article), is not a sign of confusion or obscurity, but rather a characteristic which facilitates analysis of interesting topics. The concept of social capital indicates the building of bridges between sociology and economics (see Hjerppe 1997), and there have been conscious efforts to use this approach to establish these connections. The articles of Woolcock, and of Alanen and Peltonen, take the progress furthest in this respect, while Sutela is more cautious. The discussion is not over regarding the relationships of different types of capital and the nature of social capital as one such type. But it seems possible that the debate surrounding social capital raises questions for consideration both within and between the fields of sociology and economics. The articles of this book fulfil their task if they foster such analysis.

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Social Capital: The State of the Notion¹

*Michael Woolcock*²

Abstract

The 1990s witnessed an explosion of interest in the term "social capital." Not everyone shares the enthusiasm for this trend, however, and a recent (even necessary) "backlash" has begun to surface. Popularly conceived of as the networks, norms of reciprocity and trust facilitating collective action, the idea of social capital actually dates back at least to the early twentieth century. This paper briefly traces the intellectual history of social capital, and examines the various contemporary arguments celebrating and condemning its rise to prominence. Four perspectives on social capital are identified from the current literature - the communitarian view, the networks view, the institutional view, and the synergy view - and examined in the light of the empirical evidence. The synergy view, with its emphasis on incorporating both the micro and macro dimensions, its focus on structural (as opposed to

¹ This paper is a revised and slightly modified version of a longer paper, jointly written with Deepa Narayan (World Bank), entitled 'Social Capital: Implications for Development Theory, Research, and Policy', which is forthcoming in the World Bank Research Observer.

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behavioural) sources rather than outcomes of social capital, and its recognition of the positive and negative outcomes that social capital can generate, has the greatest empirical support while lending itself to the most comprehensive and coherent policy prescriptions. For all its inherent ambiguities, the most significant virtue of the discourse surrounding "social capital" is that it helps to bridge orthodox disciplinary and methodological divides among scholars, practitioners, and policymakers.

[T]he participation of the private citizen, if even rarely, in public functions [is crucial for good government, because the citizen] is called upon, while so engaged, to weigh interests not his own; to be guided, in case of conflicting claims, by another rule than his private partialities; to apply, at every turn, principles and maxims which have for their reason of existence the common good: and he usually finds associated with him in the same work minds more familiarised than his own with these ideas and operations, whose study it will be to supply reasons to his understanding, and stimulation to his feeling for the general interest. He is made to feel himself one of the public, and whatever is for their benefit to be for his benefit. Where this school of public spirit does not exist, scarcely any sense is entertained that private persons, in no eminent social situation, owe any duties to society, except to obey the laws and submit to the government. There is no unselfish sentiment of identification with the public. Every thought or feeling, either of interest or of duty, is absorbed in the individual and in the family. The man never thinks of any collective interest, of any objects to be pursued jointly with others, but only in competition with them, and in some measure at their expense. A neighbour, not being an ally or an associate, since he is never engaged in any common undertaking for joint benefit, is therefore only a rival. Thus even private morality suffers, while public is actually extinct.

*John Stuart Mill*³

The idea of "social capital" has become one of the most widely used (and abused) concepts in social science in the 1990s. Many scholars and policymakers have welcomed this trend, while others remain highly skeptical that it is more than a passing fad. In this paper, an overview of the recent empirical work on social capital is presented, with a particular focus on its

³ Mill (1861, end of Chapter 3)

applications in the field of economic development.⁴ This overview is placed in the context of the intellectual history of social capital, and an examination of the merits of the various arguments celebrating and condemning its recent rise to prominence. The paper concludes with an assessment of where future research energies need to be directed in order to enhance the rigor, relevance, and coherence of social capital scholarship.

Social capital: intuition and formal applications

"It's not what you know, it's *who you* know." This common aphorism sums up much of the conventional wisdom regarding social capital. It is wisdom born of our experience that gaining membership to exclusive clubs requires inside contacts, that close competitions for jobs and contracts are usually won by those with "friends in high places." We understand that much of the value of a private college education resides in gaining access to powerful alumni networks, and that getting ahead in a new professional venture typically requires an active commitment to "networking." When we fall upon hard times we know it is our friends and family who constitute the final "safety net." When our computers crash we fear being left "out of the loop", knowing all too well that the information, informal tips and feedback exchanged daily via listservers and email are vital to ensuring the quality of our work. Conscientious parents devote hours of time to the school board, to helping their kids with homework, to protecting them from falling in with the "wrong crowd", only too aware that a child's intelligence and motivation are not enough to ensure a bright future. Less instrumentally, some of our happiest and most rewarding hours are spent talking with neighbours, sharing meals with friends, participating in religious gatherings, and volunteering in community projects.

Intuitively, then, the basic idea of "social capital" -that one's family, friends and associates constitute an important asset, one that can be called upon in a crisis, enjoyed for its own sake, and/or leveraged for material gain - makes a lot of sense to most people. What is true for individuals, moreover, also holds for groups. Those communities endowed with a rich stock of social networks and civic associations will be in a stronger position to confront poverty and vulnerability (Moser 1996; Narayan 1996), resolve disputes (Schafft 1998; Varshney 1999), and/or take advantage of opportunities (Isham 1999). They are likely to be safer, cleaner, healthier, better educated, and more prosperous. These insights have two key implications for developing economies in general and for poverty reduction in particular. First, they highlight the poor's characteristically rich endowment of social connections as a potential asset - e.g. for managing risk and uncertainty

⁴ Other detailed reviews of social capital as it pertains to economic development issues can be found in Hyden (1997), Harriss and De Renzio (1997), Grootaert (1998a), and Woolcock (1998). See also Platteau (1994).

(Holzmann and Jorgensen 1999), and for extending credit (van Bastalaer 1998)⁵. Second, these insights turn attention to societies with weak, hostile, or indifferent public institutions, where fragile and/or isolated social networks - the result of oppression, civil war, or entrenched inequality, for example - serve to undermine systems of law enforcement, lower social cooperation, and weaken the capacity to respond effectively to economic shocks (Narayan 1999; cf. Rodrik 1998a, 1998b). Together, these processes diminish the impact of foreign aid, stifle economic growth, and undermine the effectiveness of even the most carefully conceived development projects (World Bank 1998).

Turning these apparently obvious and important features of daily life into a coherent theory, finding valid and reliable empirical indicators for key concepts, and identifying commensurate public policy measures, however, is a task that social scientists have largely ignored in recent decades. Nevertheless, events in the post-Cold War era - from ethnic violence and widespread corruption to rising inequality and the emergence of national separatist groups - have demanded a more sophisticated appraisal of the virtues, vices and vicissitudes of "the social dimension" as it pertains to the wealth and poverty of nations. The social capital literature, broadly defined, represents a first approximation of the answer to this challenge.⁶ The rate at which this literature has accumulated since the mid-1990s is quite extraordinary, but it is a trend that has not been universally applauded. Before proceeding to examine it in some detail, it is worth considering the cases made by both supporters and detractors.

The rise of social capital: substance or style?

The spectacular growth of the social capital literature in the 1990s has occurred for a number of reasons (see below), but it should come as little surprise to discover that its popularity has also spawned a "backlash." Trenchant criticisms of social capital now appear in the academic press (e.g. Fine 1999), but one repeatedly hears variations on familiar themes in conference discussions and informal conversations. Some of the concerns expressed by the critics are legitimate and deserve to be taken seriously; others are inflated and insensitive to the broader goals being achieved. Let us examine both sides of the coin.

⁵ The poor's social capital can also be a liability - e.g. when strong downward-leveling pressures are exerted upon those that succeed economically - as we discuss in more detail below. The "assets" dimension is stressed here since it is more theoretically novel; that is to say, the poor are characteristically defined in terms of their actual and perceived "deficits" - lack of income, housing, health care, education, credit. The social capital approach, however, explicitly recognizes that at least the poor have each other, and that this can be a useful foundation on which to manage adversity and accumulate other assets (see Moser 1998).

⁶ Chanda and Putterman (1999) provide a more detailed discussion of the literature examining the relationship between various social indicators and economic growth.

For the critics, "social capital" is flawed because it:

- merely repackages old ideas. Social capital's popularity across the political spectrum says more about its style (good 'marketing') than its conceptual or empirical substance
- collapses complex, discrete issues (trust, norms, networks, etc.) into a single term
- is merely the latest social scientific fad or buzz word. Conceptually, it has become 'all things to all people', and thus nothing to anyone
- cannot reconcile the 'virtues' and 'Vices' of social relationships
- encourages and rewards 'economic imperialism' (Why refer to social relations as 'capital'?)
- reinforces, and/or legitimizes orthodox (neo-'Washington consensus') development policies
- is highly problematic to measure
- is a Western (especially US) concept supported by Western research, with little relevance elsewhere.

There is a measure of truth to some of these claims, to be sure, but rather than offer a detailed or divisive point-by-point rebuttal, a more constructive response is to stress what has been gained by the rise of social capital scholarship. For all its inherent ambiguities, it should be noted that the rise of social capital is due in no small part to the fact that it:

- gives classical sociological themes a voice they would not otherwise enjoy
- lends a measure of theoretical coherence to disparate concepts
- provides a common discourse transcending disciplinary, sectoral, and methodological lines (see Brown and Ashman 1996; Brown 1998)
- can and does reconcile 'virtues' (benefits) and 'vices' (costs) of social relations
- facilitates sociology's entry into high-level policy discussions
- challenges prevailing theories across the social sciences (especially those in economics), while offering a potentially fruitful focus for complementarity
- is stimulating an unprecedented quality and quantity of empirical research on 'the social dimensions' of development; increasingly rigorous measures of social capital at both the local and cross-national levels are being developed
- has broad intuitive and substantive appeal despite linguistic and cultural differences.

While recognizing the limitations of social capital and encouraging open on-going debate, on balance it is hard to argue that the losses have been outweighed by these tremendous gains.

In accepting the desirability of these gains, however, it is important to have a comprehensive conceptual framework capable of providing a measure of coherence to the field, a standard against which to critique current research, and a guide for future work. The emergence of such a framework remains the subject of considerable debate, but it is instructive to review the evolution of that debate, and the arguments put forward by various camps.

Making sense of the social capital literature: four perspectives

Four distinctive views (or "theories") of social capital can be discerned in the literature.⁷ The first perspective, which I will call the communitarian view, is popular but narrow, and equates social capital with local level organizations, namely the associations, civic groups and informal networks that nurture the norms of trust and reciprocity facilitating mutually beneficial collective action (see Table 1). This view, measured most simply as the density of clubs, societies, and associations in a given community, implies that social capital is inherently "good," that "more is better," and that it always has a positive effect on a community's livelihood and sense of well-being.

In their celebration of community and civil society, many enthusiasts of this view of social capital have ignored its important "downside" (Portes and Landolt 1996). For example, where communities or networks are isolated, parochial, or working at cross-purposes to society's collective interests (e.g. ghettos, gangs, drug cartels), "productive" social capital is replaced by what Rubio (1997) - discussing the case of Columbia - calls "perverse" social capital, which greatly hinders development. There are certainly many benefits associated with being a member of a highly integrated community, but there are also significant costs, and for some - e.g. bright girls taken out of village schools because of community expectations - the costs of their "connections" may greatly outweigh the benefits. In the case of organized crime syndicates in Latin America and Russia, such groups may generate large negative externalities for the rest of society in the form of lost lives, wasted resources and pervasive uncertainty. The communitarian perspective also implicitly assumes that communities are homogenous entities that automatically include and benefit all members. The extensive literature on caste inequality, ethnic exclusion, and gender discrimination in South Asia - outcomes often produced, maintained, and enforced by community pressures - suggests otherwise.

Some further examples may help to clarify the characteristic virtues and vices of social capital. Consider the familiar menu of benefits accruing to the well connected. We expect that those with direct ties to corporate, academic, civic, and political leaders will be more likely to secure access to safe neighbourhoods, good schools and well-paying jobs. In a competitive world, they will be more likely to secure financing for their project, to get their voice heard, and their interests acted upon. These same networks and patron-client relations, however, can also promote illegal "sweetheart" deals, sponsor corruption and facilitate nepotism, thereby eroding public confidence in the

⁷ These classifications extend those initially put forward by the World Bank's first interdisciplinary Social Capital Group, convened in January 1996 (see Grootaert 1998a). For a trenchant critique of these views, and their alleged unilateral participation in what Tendler (1997) calls "decentralization fever" among development agencies, see Harriss and De Renzio (1997). See also Fine (1999), who criticizes social capital in general (and "the World Bank's" use of it in particular) on the grounds that it allegedly obscures issues of class and power. While this may be true for certain conceptualizations, I argue that an institutional view of social capital (outlined below) highlights the mechanisms by which class and power relations are initiated, maintained and perpetuated. It can thereby provide a foundation for a more realistic conceptual framework for understanding, and hence overcoming, inequality and power.

impartiality and efficiency of public institutions (Shleifer and Vishney 1993; La Porta et al. 1998). Similarly, we expect neighbourhoods blessed with high levels of participation and "community spirit" to be pleasant and prosperous places to live, with everyone supporting one another by looking after children, checking houses when owners are away on vacation, and keeping an eye out for menacing strangers. But life in small towns, where an abundance of social capital means that everyone literally knows everyone else's business, can also be characterized by a stifling of dissent, tremendous pressures to conform, and entrenched hostility to "outsiders."⁸ The work inspired by Olson (1982) argues convincingly that long-standing civic groups can hinder rather than help democracy by distorting political processes in their favour. As Unger (1998, 16) rightly concludes,

ease in forming cooperative groups may be associated as much with communalism, criminality, or fascism as with democracy, as much with conflict as with cooperation, as much with growth-choking distributional coalitions as with small-scale family-based flexible firms or large multinational enterprises.

Examples from the developing world further demonstrate why merely having high levels of social solidarity or informal groups does not necessarily lead to economic prosperity. In Kenya, a participatory poverty assessment found over 200,000 groups in rural areas, but most of these were unable to lift the poor out of poverty (Narayan and Nyamwaya 1996). A World Bank report on Rwanda (World Bank 1989) reported the existence of more than 3,000 registered cooperatives and farmers groups, and an estimated 30,000 informal groups, yet these were unable to prevent one of history's most gruesome civil wars.⁹ Similarly, in many Latin America countries indigenous groups are often characterized by high levels of social capital or social solidarity, but experience high levels of poverty nonetheless (Narayan 1999). This is the case in poverty-stricken Haiti, where social capital, "rich at the local level", is employed by peasant groups to "meet labour requirements, gain access to land, protect clientship in the marketplace, promote mutual aid, assure protection from state authorities, and generally manage risk." Even so, these groups cannot overcome the crippling effects of colonialism, corruption, "geographical isolation, political exclusion, and social polarization" (White and Smucker 1998, 1-3).

⁸ In certain forms, moreover, social capital can be not only an impediment to economic advancement, but a life-threatening liability. Those with friends and associates confined to "low" places typically face a long uphill struggle to get ahead. Neighbourhoods cursed with rampant crime, high unemployment and insidious drug dealers struggle to break out of this cycle precisely because their residents are often deprived of access to external job networks, while being simultaneously saturated with role models demonstrating indifference (even hostility) to education, formal employment and peaceful conflict resolution (Wilson 1987, 1996). This is a central message of the films 'Once Were Warriors' and 'Boyz in the Hood', in which socially isolated (but nonetheless potently real) communities perpetuate tragically destructive behaviour. When the only people one interacts with are also chronically poor, addicted, abused or otherwise down on their luck, it is hard to conceive of - let alone create or find - opportunities for a more stable and rewarding lifestyle (Fernandez Kelly 1995). Efforts to leave, moreover, can be considered acts of high treason and betrayal that only elaborate acts of commitment can assuage.

⁹ We are grateful to Maya Tudor for bringing this study to our attention.

In the light of these concerns, a second perspective on social capital can be identified that attempts to account for both its "upside" and "downside." This view stresses the importance of vertical as well as horizontal associations between people, and relations within and among other organizational entities. This could include relations between community groups or other organizational units such as firms. Building on the seminal work of Granovetter (1973), it recognizes that horizontal (or "strong") ties are needed to give families and communities a sense of identity and common purpose. This view also stresses, however, that without "bridging" (or "weak") ties that cross various social divides - e.g. those based on religion, class, ethnicity, gender, socio-economic status - strong horizontal ties can become a basis for the pursuit of narrow sectarian interests.¹⁰ Strong ties in the absence of weak ties, moreover, can actively preclude access to information that would otherwise be of great assistance to the community (e.g. tips about job opportunities). This more nuanced perspective, which can be called the networks view, regards the tension between social capital's virtues and vices as a defining properly, one which explains in part why scholars and policymakers have been so persistently ambivalent about its potential as a theoretical construct and policy instrument.

Kozel and Parker (1998) employ a variation on this perspective in their analysis of poor communities in rural north India, where they report that social groups among poor villagers serve vitally important protection, risk management, and solidarity functions. It is the more extensive and leveraged networks of the non-poor, by contrast, that are used for strategic advantage and the advancement of material interests. Crudely put, the networks of the poor play "defence", while those of the non-poor play "offense" (cf. Briggs 1997). Barr (1998) reports strikingly similar results from her work on the relationship between the structure of business networks and enterprise performance in Africa. Poor entrepreneurs, operating small local firms in traditional industries, form what she calls "solidarity networks", sharing personal information about members' conduct and intentions, the primary function of which is to reduce risk and uncertainty. Larger regional firms, on the other hand, coalesce into "innovation networks", sharing knowledge about technology and global markets with the explicit goal of enhancing enterprise productivity, profit and market share (see also Van Dijk and Rabellotti 1997; Fafchamps and Minten 1998a; Fafchamps and Minten, 1998b). Far from dismissing the vitality of traditional village groups in poor communities (the modernization view) or romanticizing it (the communitarian view), the networks view in effect recognizes that these groups can both help and hinder economic advancement. Accordingly, the problematic task facing the poor - and those who would "assist" them - is finding a way of drawing initially upon the social resources of family members and peers, but then

¹⁰ This was also the essence of Banfield's (1958) notion of "amoral familism," and Hirschman's (1958) concerns about "group-focused" development.

forging broader and more autonomous ties beyond the group as their demand for larger markets and more sophisticated inputs expands.

The networks view of social capital, most closely associated with the work of Alejandro Portes (1995, 1998) and his colleagues on ethnic entrepreneurship, builds on an extensive critique of the communitarian view. Its particular strength is its willingness to engage in detailed policy discussions¹¹, doing so on the basis of compelling evidence and detailed empirical assessments of the veracity of competing explanations. This view, however, minimizes the "public good" nature of social groups, regarding any benefits of group activity as primarily the property of the particular individuals involved. As such it is highly skeptical of arguments that social capital can (or should) be measured across larger social aggregates, such as different societies or nations. Neither does it incorporate or assign any distinctive importance to macro-level institutions such as the state, and their capacity to both shape and be shaped by local communities. To be sure, the networks perspective recognizes that weak laws and overt discrimination can undermine efforts by poor minorities to act in their collective interest, but the role communities play in shaping institutional performance generally, and state-society relations in particular, is largely ignored.

A third perspective of social capital, the institutional view, argues that the social and political environment shapes social structures, thereby enabling norms of cooperation and reciprocity (or distrust and defection) to develop. In effect, this approach treats social capital as a dependent (rather than independent) variable, and extends the importance of social capital to formal organizations, such as government, firms and the legal system. The work of Evans (1995) and Skocpol (1994), among others, has been the most influential in this regard, showing that if the state is demonstrably ill-suited to assuming full responsibility for all aspects of modern economic life, then it is equally erroneous to pit states and societies against one another in a zero- or negative-sum game, i.e. to argue that firms and communities thrive to the extent that governments retreat. Rather, equitable and sustainable development takes place when representatives of the state, the corporate sector and civil society establish common forums in and through which they can identify and pursue common goals.

The fourth view, which I call the synergy perspective, argues that the performance of public institutions, private firms and social networks is mutually dependent on one another. The synergy view accounts not only for the virtues and vices of social relations within and across community boundaries, but recognizes that the very capacity of social groups to act in their collective interest depends crucially on the nature and extent of their engagement with formal institutions. It also stresses that the performance of states and firms themselves depends on their own internal coherence, credibility and competence, and their external accountability to civil society (Tendler 1995).

¹¹ See, for example, Massey and Espinosa (1997) and Massey (1998) on US-Mexican migration.

The synergy view argues that development is an inherently contentious and contested - that is to say, political - process, one in which the role of the state is crucial, not marginal.¹² But development struggles are not always won by the most powerful, nor must a challenge to authority entail violent conflict. Where subordinate groups and activists can forge broad, coherent coalitions (Keck and Sikkink 1998), and nurture relations with allies in positions of power (Fox and Brown 1998), rights and resources previously denied them can begin to be accrued. Similarly, patient efforts by competent NGOs, extension services and development agencies to mobilize and harness local-level social resources among the poor, and to use these as the basis for transferring knowledge and "scaling up" initial accomplishments, can reap significant dividends (Isham, Narayan, and Pritchett 1995). As Uphoff (1992, 273) astutely recognizes,

paradoxical though it may seem, "top-down" efforts are usually needed to introduce, sustain, and institutionalize "bottom-up" development. We are commonly constrained to think in "either-or" terms - the more of one the less of the other - when both are needed in a positive-sum way to achieve our purposes.

Table 1. Four Views of Social Capital: Key Actors and Policy Prescriptions

Perspective	Key Actors	Policy Prescriptions
1. <i>Communitarian View</i> Local association	Community groups Voluntary sector	'Small is beautiful' Encourage volunteerism
2. <i>Networks View</i> Intra ('strong') and inter ('weak') community ties	Entrepreneurs Business groups 'Information brokers' Community groups	Decentralization Creation of enterprise zones Civil society federations
3. <i>Institutional View</i> State-society relations	The state, public institutions	Enhance rule of law, rights Build capacity, competence
4. <i>Synergy View</i> Community networks and state-society relations	Private and public sector Communities	Co-production, complementarity Accountability, transparency Reduce inequality Participation, linkages

This fourth approach to understanding social capital, developed in more detail below, suggests that there are thus three central tasks for theorists, researchers and policy makers. The first task is to identify the nature and extent of the social relationships characterizing a particular community, its formal institutions and the interaction between them. The second is to

¹² See, among others, Fox (1996, 1997), Heller (1996, 1999), Tendler (1997), and Rodrik (1998b, 1999).

identify ways and means by which positive manifestations of social capital - widespread cooperation, trust, institutional efficiency - can offset, and/or be created from, its negative manifestations - sectarianism, isolationism, corruption. Put another way, the challenge is to transform situations where local social capital "substitutes" for weak, hostile or indifferent formal institutions into ones in which both realms "complement" one another.¹³ The third task is to recognize with the classical sociologists that successful economic development - the basic transition from *Gemeinschaft* (traditional kinship-based community life) to *Gesellschaft* (society) - itself transforms the calculus of costs and benefits associated with the particular dimensions of social capital, and thus alters the desirable combinations of these dimensions at any given moment in time. A small victory today may provide the blueprint for greater success tomorrow, but in so doing it may also change the very conditions that made the initial success possible (cf. Berry 1993).¹⁴

So what, then, is social capital? Each of the four perspectives outlined above makes an important contribution but, based on the evidence, the synergy view appears to have the greatest empirical support.¹⁵ Accordingly, we define social capital as the norms and social relations embedded in the social structure of societies that enable people to coordinate action to achieve desired goals. Since the attainment of these goals by one group may have positive or negative consequences for others, a central task of public policy is to facilitate conditions generating positive externalities. Moreover, that social capital can generate both positive and negative externalities implies that there are several dimensions of social capital, and that it is different combinations of these dimensions that produce these different outcomes.

This definition focuses on the sources of social capital, rather than the outcomes derived from it (Portes and Landolt 1996; Edwards and Foley 1997; Foley and Edwards 1999). Social capital does indeed generate a shared ability to exchange information, enhance the "internalization of externalities" (e.g. the enforcement of contracts), and facilitate collective action, all of which are crucial for development and poverty reduction (Collier 1998). But precisely because coordinated action and the exchange of information can be used for purposes both fair and foul, it is necessary to build on the definition above

¹³ On this question, see Narayan (1999).

¹⁴ By strengthening previously subordinate groups and/or weakening previously dominant groups - creating what Evans (1995, 229), paraphrasing Marx, calls the "gravedigger problem" - successful development potentially sets in motion an underlying dynamic creating new distributional coalitions with fresh claims to make on the resources of both the state and other social groups. Managing this transition fairly and efficiently is one of the major tasks of development, but all too often it fails to happen. Writ large, this is the "paradox of plenty" (Karl 1997) faced by countries suddenly in receipt of a large economic windfall (from, say, oil). The windfall potentially could be used to fund the construction of schools, hospitals, and other public goods (as it is in Norway), but in countries with weak public institutions and wide social cleavages (Venezuela, Nigeria) this windfall is squandered, providing a small cadre of unaccountable political and business insiders with enormous personal incomes.

¹⁵ The World Bank's Social Capital Initiative, sponsored by the Government of Denmark, is currently conducting ten large innovative projects covering issues ranging from water management to post-conflict reconstruction. The results of these studies, conducted in different regions of the world, will be published in 2000. For an overview of the SCI, see their website at: <http://www.inform.umd.edu/IRIS/> (click on 'Programs and Activities', the 'Social Capital Initiative').

and develop a conceptual framework that can accommodate these different outcomes. No local community acts in an institutional vacuum, and institutions themselves act in accordance with both their own internal coherence and the nature of their engagement with various constituent groups. This conceptual framework must therefore be capable of incorporating different dimensions of social capital at both the micro/community and macro/institutional levels. To develop such a framework, we first need to examine in some detail what the social capital literature on development tells us about itself, and to explore the nature of the evidence and arguments brought to bear in support of different positions.

The contemporary social capital literature in historical perspective¹⁶

Notwithstanding the current wave of interest in social capital, research incorporating the letter and spirit of this concept has a long history in the social sciences. The details of social capital's intellectual history are outlined in Woolcock (1998), but a brief chronology begins with Lyda J. Hanifan (1916), who employed the term, anticipating James Coleman, to explain the role of community participation in shaping school performance. According to Hanifan (1916, 130), social capital referred to

those tangible substances [that] count for most in the daily lives of people: namely good will, fellowship, sympathy, and social intercourse among the individuals and families who make up a social unit... If [an individual comes] into contact with his neighbour, and they with other neighbours, there will be an accumulation of social capital, which may immediately satisfy his social needs and which may bear a social potentiality sufficient to the substantial improvement of living conditions in the whole community.

Social capital as a concept then disappeared for four decades, but was "reinvented" by a team of Canadian urban sociologists in the 1950s (Seeley, Sim, and Loosley 1956) and Jane Jacobs in the early 1960s (Jacobs 1961) before being elaborated upon by economist Glenn Loury in the late 1970s (Loury 1977) and then sociologist James Coleman in the 1980s (Coleman 1987, 1988).¹⁷ (A complementary approach was also being developed by the French sociologist Pierre Bourdieu in the 1970s, though Anglo-American scholars were not fully aware of this until the late 1980s.) The major impetus to contemporary scholarship on the topic, however, came with political scientist Robert Putnam's (1993a) seminal work in the early 1990s on regional governance in Italy. This project inspired his subsequent research on the state of social capital in America (1995, 2000), which culminated in his provocative thesis that Americans in the late twentieth century were "bowling alone", i.e.

¹⁶ More extensive coverage of this issue as it pertains to economic development issues is provided in Woolcock (2000) and Narayan (1999).

¹⁷ George Homans also discussed the concept briefly in the early 1960s in his work on exchange theory.

becoming increasingly disengaged from one another by withdrawing from public life.¹⁸ Despite the lack of continuity in these different uses, it is remarkable how similar they are to one another.

The seminal work of Coleman (1988, 1990) and especially Putnam (1993a, 1995) has inspired most of the current work, which has since coalesced around studies in (at least) nine fields. These fields are: (1) families and youth behaviour problems; (2) schooling and education; (3) community life ("virtual" and civic); (4) work and organizations; (5) democracy and governance; (6) general cases of collective action problems; (7) public health and environment issues; (8) crime and violence; and (9) economic development.¹⁹ Within this last field, two major research projects in the mid-1990s were responsible for expanding and refining our understanding of social capital, and for incorporating it into the theory and practice of economic development.

The first project on social capital and economic development was sponsored by the Russell Sage Foundation, under the leadership of Alejandro Portes. The substantive focus of this project was the study of immigration, ethnic entrepreneurship and urban poverty, and the reasons why different national groups displayed such variable capacities to adjust to their new surroundings. Why, for example, did Mexicans and Puerto Ricans fare so much better in some US cities than others? Why were particular Asian communities able to generate funds from among their members to launch small business enterprises, while African-Americans, for the most part, were not? Why were many residents of inner-city ghettos seemingly unable to free themselves of the high crime rates and joblessness around them? Two key findings emerged from the Sage Foundation project in terms of a general theory of social capital.²⁰ First, social capital is a double-edged sword: on the one hand, it can provide a range of valuable services for community members, ranging from baby-sitting and house-minding to job referrals and emergency cash. But there are also costs, in that those same ties can place considerable claims on members' sense of obligation and commitment that have economic consequences. Group loyalties may be so strong that they isolate members from information about employment opportunities, foster a climate of ridicule towards efforts to study and work hard (e.g. claiming that doing well in school amounts to "acting white"), or siphon off hard-won assets (e.g. supporting subsequent cohorts of co-ethnic immigrants²¹). These

¹⁸ I am grateful to Robert Putnam for helping us find early examples of social capital research. Putnam (1993b) and Coleman (1994) first laid down to scholars of development the challenge of social capital theory.

¹⁹ For citations on the first eight fields, see Woolcock (1998). See also the World Bank website on social capital at: <http://www.worldbank.org/poverty/scapital>.

²⁰ For a full account of the fruits of this project, see Portes (1995). See also Portes (1997).

²¹ Portes and Sensenbrenner (1993) report on the case of prosperous Asian immigrants who resorted to Anglicizing their names in order to free themselves of communal obligations to support subsequent cohorts. A happier example of assimilation, in which community ties remain more or less intact, is that of American Jews; on this, see Gold (1995). See also, among others, Zhou and Bankston (1994) and Sanders and Nee (1996).

results gave rise to the logical conclusion that there must be two basic dimensions of social capital at the community level, namely "strong" intra-group ties and "weak" extra-group networks: both were needed to avoid making tautological claims regarding the efficacy of social capital.²² (Without this distinction, for example, an argument could be put forward that successful groups were distinguished by their dense community ties, failing to consider the possibility that the same ties could be preventing success in another otherwise similar group.) The clear challenge to social capital theory and research, the Sage group concluded, is to identify the conditions under which the many positive aspects of repeated social interactions can be harnessed, and their negative aspects dissipated.

Table 2. *Summary and Extension of the Russel Sage Foundation Findings*

<i>Extra-Community Networks (Linkages)</i>	High	Mexicans in San Diego RECENTRURAL-TO-URBANMIGRANTS	"Anglicized" Asian immigrants in Los Angeles SUCCESSFUL MEMBERS OF MICROFINANCE PROGRAMMES
	Low	The homeless OUTCASTS	Urban ghettos POOR VILLAGERS
		Low	High
		<i>Intra-Community Ties (Integration)</i>	
		Lower Case - Findings of the Russel Sage group	
		UPPER CASE - APPLICATIONS TO DEVELOPMENT	

²² This idea has its origins in Georg Simmel, who wrote extensively on the social boundaries separating "insiders" and "outsiders." Simmel (1971 [1908], 253, 255) also recognized that development and an expanding division of labour produced

• A need and an inclination to reach out beyond the original spatial, economic, and mental boundaries of the group and, in connection with the increase in individualization and concomitant mutual repulsion of group elements, to supplement the original centripetal forces of the lone group with a centrifugal tendency that forms bridges with other groups. . . [A]s long as the small primitive group is self-sufficient, a pervasive equality exists in that each member of the group works for the group itself; every achievement is sociologically centripetal. However, as soon as the boundaries of the group are ruptured and it enters into trade in special products with another group, internal differentiation develops between those who produce for export and those who produce for domestic consumption - two wholly opposed modes of being.

Second, the Sage group proposed that precisely because social capital could confer both costs and benefits, it was important to distinguish between its sources and consequences - i.e. what social capital *is* ("the medium") and what it does ("the message").²³ As summarized in Table 2, different combinations of intra-group ties (Integration) and extra-group networks (Linkages) could have profoundly diverse effects on members' welfare, even though any given group could rightly be said to possess "social capital."²⁴ Furthermore, as members' welfare changed over time, so too did the optimal "calculus" of costs and benefits associated with particular combinations of Integration and Linkages. Poor entrepreneurs, for example, once heavily dependent on their immediate neighbours and friends (i.e. their "strong ties") for credit, insurance, and support, required access to more extensive product and factor markets as their businesses expanded. Economic development, these authors concluded, took place when an ongoing "coupling and decoupling" social mechanism was in place (Granovetter 1995). This mechanism allowed individuals initially to draw on the benefits of close community membership, but in doing so also ensured that they acquired the skills and resources to participate in more extensive networks that transcended their community, thereby progressively incorporating them into mainstream economic life. Applied to development, studying social capital primarily in terms of types and combinations of social relationships enables us to recognize that, on the one hand, poor villagers typically have an abundance of social capital in terms of strong ties (neighbours, family members), but a dearth of social capital in terms of weak ties (awareness of, access to, and sustained participation in external networks).

Meanwhile, a second group of scholars concerned themselves with examining the manner in which social relationships contributed (or not) to development at the institutional level. Sponsored by the American Academy of Arts and Sciences, this group, under the leadership of Peter Evans, examined case studies from India, Mexico, Russia, South Korea, and Brazil in search of the conditions fostering developmental "synergies" - i.e. dynamic professional alliances and relationships - between and within state bureaucracies and civil society.²⁵

²³ "Defining social capital functionally," Edwards and Foley (1997, 669) correctly point out, "makes it impossible to separate what it is from what it does." Matters are complicated further when social capital is classified as a public good that is, by definition, under-produced by society. Social capital in the form of trust, some argue, is created as a by-product of other collective endeavors such as participation in civic associations, but these activities are themselves public goods, and are also identified as social capital, leaving us with the problematic conceptual task of distinguishing between "the sources of social capital [and] the benefits derived from them" (Portes and Landolt, 1996: 19). Our approach endeavours to focus on the different sources of social capital, recognizing that these can give rise to both positive and negative outcomes.

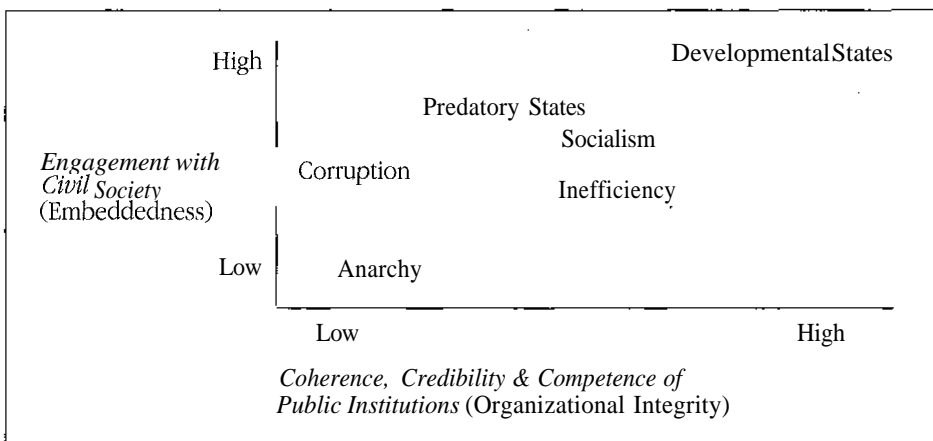
²⁴ This table draws on the Sage project results, but also incorporates findings from other related research, and provides simple examples of cases which correspond to each of the combinations of the basic dimensions of social capital at the local/community level.

²⁵ These studies were published in the June 1996 issue of *World Development*.

Three master hypotheses emerged from the AAAS group:

- (1) Contra public choice and communitarian theorists, neither the state nor societies are inherently good or bad; governments, corporations and civic groups are "variables" in terms of the impact they can have on the attainment of collective goals.
- (2) States, firms and communities alone do not possess the resources needed to promote broad-based, sustainable development; complementarities and partnerships forged both within and across these different sectors are required. Identifying the conditions under which these synergies emerge is therefore the central task of development theory and practice. Moreover, because these conditions emerge historically, comparative analysis is likely to be an especially fruitful methodological approach to correctly identifying them.
- (3) Of these different sectors, the state's role in facilitating positive developmental outcomes is the most problematic and important. This is so because the state is not only the ultimate provider of public goods (stable currencies, public health, universal education) and the final arbiter and enforcer of the rule of law (property rights, due process, freedom of speech and association); it is also the actor best situated to facilitating enduring alliances across the boundaries of class, ethnicity, race, gender, politics, and religion.²⁶ This assertion does not render communities and firms of negligible importance; on the contrary, they have an important role to play in their own right, and in creating the conditions that produce, recognize and reward good governance.

Table 3 • *Summary and Extension of the AAAS Project Findings*



²⁶ See Narayan (1999). For a related argument from political economy, see Rodrik (1997).

Specifically, equitable and effective economic development requires the difficult task of assembling and maintaining coherent, credible and competent public institutions that are simultaneously actively engaged with the day-to-day affairs of their constituents. These twin features, which I call organizational integrity and embeddedness (cf. Evans 1992, 1995), characterize situations in which public officials are, on the one hand, skilled employees working within a coherent organizational structure, impartially exercising their duties. On the other hand, these officials are also openly accountable for their actions, and are able to make timely adjustments to crises and opportunities alike, doing so in large part because they are in touch with the on-going concerns of those under their jurisdiction (e.g. business and civic leaders). This result, it turns out, is generalizable across a broad range of formal organizations: positive developmental outcomes are most likely when institutions - public, private, and civic alike - are characterized by high organizational integrity and embeddedness. Importantly, where one or more of these features is absent, sub-optimal, even highly destructive ("predatory"), outcomes can be expected (see Table 3). India, for example, has a highly trained cadre of civil servants (the Indian Administrative Service), but their public accountability and engagement with key business leaders is comparatively low (Bardhan 1995).²⁷ On these criteria, as Stark and Bruszt (1998) point out, the socialist state was not a "strong state" as popularly portrayed, but rather a weak state, where party loyalty rather than merit determined promotions, and where input from business leaders sensitive to global standards and competition was never sought.

This general framework has been complemented in the last few years by several innovative studies attempting to quantify social capital and its contribution to economic development. As indicated above, social capital scholarship is so rich partly because it draws on a variety of methodological approaches, all of which have an important role to play in interpreting, challenging and refining each others' findings (cf. Tarrow, 1995). In order to arrive at more concrete policy recommendations, however, there is a need for more comparative research using precise measures of social capital to examine within-country variations and across-country variations in poverty reduction, government performance, ethnic conflict and economic growth. (See Woolcock and Narayan [1999] for a more detailed discussion of recent attempts to generalize regional and cross-national measures of social capital.)

²⁷ For a comparative study of the state's engagement with different Indian industries, see Pingle (1996). It is important to recognize that there are many studies using both qualitative and participatory methods to understand local level institutions. Open-ended methods such as key informant interviews and focus group discussions allow for a rich exploration of an institution's history and evolution. Venn diagrams, a Participatory Rapid Appraisal technique, have been used extensively in participatory poverty assessments to map local level institutions, their power structures, and their relations with different social groups in a community (see Rietbergen-McCracken and Narayan 1998). Similar approaches can also be used to map the structure and functions of formal institutions.

Implications for development theory and policy

It is far too early, of course, to proclaim that social capital research amounts to a coherent theory or a new "paradigm" for development studies. Nevertheless, as this paper has endeavoured to show, there is good reason to believe that viable alternatives to prevailing orthodoxies are in the wind, and that the social dimension of economic development is finally being given the serious treatment it deserves. In this final section, I consider some of the implications of social capital research for development theory and policy. It should be stressed that these implications are necessarily preliminary, and that others are invited to refine, correct or expand upon them.

The first implication for development theory is that the concept of social capital offers a way to bridge sociological and economic perspectives, thereby providing potentially richer and better explanations of economic development. In a world beset with ethnic conflict, political tension and financial crisis, no single discipline (if ever it could) can hope to provide either a full accounting of these problems or realistic prescriptions for change. Dialogue across disciplinary, sectoral and professional lines alike is crucial for both conceptual and operational advancement. A second implication is that economic growth is shaped by the nature and extent of social interactions between communities and institutions (cf. Rodrik, 1998a). This has profound implications for development policy, in which attention to the embeddedness of economic life in the social and political environment has until recently been largely absent. This paper affirms that understanding how "outside" agencies can facilitate sustainable poverty alleviation in diverse (and often poorly understood) communities remains one of the great challenges of development (Klitgaard 1990, 12).

Recent work by the World Bank and the development community at large on social development, participation, institutions and governance lays the building blocks to help us move forward. Five broad recommendations follow from this review of the social capital literature in its broader institutional and political context. First, for all development interventions, especially at the country level, the use of social institutional analysis is recommended to correctly identify the range of stakeholders and their interrelations. Understanding how their power and political interests will be affected by proposed policy interventions is a vital consideration, since all policy interventions are embedded in the existing social organization: in informal social relations, networks, and institutions. The impact of this social embeddedness needs to be factored into the design of institutional reform policies, both in the public and private sector and at the national, state, and local levels. Particular attention also needs to be paid in design interventions to the potential for dominant groups to mobilize resources in ways that undermine the public good.

Second, the use of participatory processes and spaces facilitating consensus-building and social interaction among diverse sets of stakeholders is vitally important. Finding ways and means by which to transcend social divides so

as to build social cohesion and trust is crucial for economic development. One of the great virtues of the idea and discourse of "social capital" is that it provides a common language for these different stakeholders, enabling them to communicate more openly with one another. Third, measures to support information disclosure policies at all levels should be encouraged to enhance informed citizenship and the accountability of both private and public actors who serve to foster the public good. Fourth, emphasis should be placed on improving physical access and modern technology to foster communication and information exchange across social groups to complement social interaction based on face-to-face interchange. Among other things, it is strongly supportive of efforts to get key decision-makers and researchers out of their offices in capital cities, and into the field. Finally, it is important to evaluate all development interventions through a social capital lens, with their value assessment including the potential impact of the intervention on social capital. Policy and project intervention designs and processes may need to be changed to ensure that the voices of those most affected by these policies and programmes - especially the poor - are taken seriously.

Conclusion: toward rigorous and relevant social capital research

In an insightful essay, Easterly (1998b) argues that attempts by economists to explain variations in economic growth can be likened to a series of mythological quests. In this quest, "a person and some companions set out on a dangerous journey in search of some magical object such as the Holy Grail or Golden Fleece. But they discover in the course of the journey that the solution they are seeking lies not with the magical object but within themselves." In the 1950s and 60s, economists thought development's Holy Grail lay in investments in infrastructure and technology transfer (physical capital). In the 1970s and 80s, attention shifted to education and health (human capital). It is tempting to conclude that the quest for development in the 1990s has now come full circle, and that the answer lies, after all, within ourselves, i.e. our communities and institutions (social capital).

This is not the message that supporters of social capital should be attempting to convey. Accumulating and investing in physical and (especially) human capital remains central to development, and it would only be committing the errors of the past to imagine that a single factor or issue can explain the wealth and poverty of nations. In exploring the literature on social capital and development, this paper has sought to convey a recurring message that the social dimension is a central component of attempts to mobilize other growth-enhancing resources. Social capital does not exist in a political vacuum; rather, the nature and extent of the interactions between communities and institutions holds the key to understanding the prospects for development in a given society. The capacity of social capital to be used for purposes supporting and undermining the public good requires careful attention to its various dimensions. Finally, in the absence of formal insurance mechanisms and financial instruments, perhaps the most important

example of social capital at work is the use by the poor of their social connections as a primary means of protection against risk and vulnerability, and of procuring resources to advance their interests.

We may never have all the answers to the ambiguities inherent in trying to foster economic development by investment in physical capital, human capital, and now social capital. Nevertheless, as Szreter neatly puts it (1998, 8),

with mass stress and overwork for many and unemployment and social exclusion for others in the West, with financial maelstroms in the East, and chronic poverty and famines in the South, allied to ubiquitous environmental degradation and pollution, all sane citizens are asking: isn't there a better practical guide to economics? Is it not time for a more human, less rapacious, and, ultimately less self-defeating economic paradigm? A previous generation, faced with a similar international breakdown in the practical credibility of neo-classical economics, invented and applied the multiplier as a central mechanism for a new economics, Keynesianism, which successfully provided for the needs of a whole, lucky generation, which we now look back on as the post-war golden age. Now it is time to develop social capital as the focus for another new economics to serve another generation...

If we wait for another generation till we know all there is to know about social capital, however, we may look back and see another lost decade. Rather, to foster further our knowledge and understanding of social capital, we should adopt a learning-by-doing stance. For the World Bank and the development community at large, this implies more rigorous evaluations of project and policy impact on social capital; greater work on unbundling the mechanisms through which social capital works; and understanding the determinants of social capital itself.

Finally, it would be the ultimate irony if those people most interested in researching and generating social capital did not themselves foster trust, openness and a willingness to share information, ideas and opportunities in this field. It is in this spirit that I invite readers to access, use and contribute to the World Bank's Social Capital Thematic Group, and the extensive knowledge base of ongoing research around the world in the social capital domain.²⁸ It is only through collaborative efforts - with all that this entails regarding struggle, perseverance, negotiation and willingness to learn - that genuine progress will be made. While continuing to debate theoretical and conceptual issues, it is vital that the focus remains squarely on the larger issues of poverty reduction, democracy and justice, and on finding ways and means by which to harness our collective financial, intellectual and moral resources to serve these ends. A research agenda that remains committed to rigor and relevance, not petty disciplinary squabbles, and that does not try to run before it can walk, offers the best way forward.

²⁸ The website for the World Bank's Social Capital Thematic Group, along with instructions for how to receive our newsletter and/or join the email discussion group, can be reached at <<http://www.worldbank.org/poverty/scapital>>.

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Social Capital and Economic Efficiency

Comments on Woolcock's Article

Jouko Kajanoja

I basically agree with Woolcock's conceptual conclusions. He is not satisfied with the communitarian or networks views or with the institutional view restricting itself to state-society relations. Instead he emphasises the synergy of social capital, a perspective much wider than communitarian and networks views and mere state-society relations because it encompasses them all.

Woolcock's approach reflects the traditional¹ view of the World Bank, whose wider understanding of social capital has conflicted with the opinions of most sociologists and economists who have worked with the concept, such as Coleman, Putnam, Leonardi, Fukuyama, Knack, La Porta, Portes, etc. (Kajanoja 1999).

Reflecting his synergy perspective, Woolcock defines social capital as follows: "the norms and social relations embedded in the social structure of societies that enable people to coordinate action to achieve desired goals".

Social as capital - comments on the definition

I have only one question: is this definition broad enough? Does it include all kinds of social phenomena which may have an influence on achieving desired goals? I doubt it. For example, why is the word "coordinate" needed in defining social capital? We can imagine social norms which have favourable effects but which do not require any coordinated action. Social norms favouring decent work instead of lounging around, or reciprocity instead of indifference, do not necessarily need any coordinated actions to be realised, but they are still fundamental features of social capital.

¹ The word tradition is a little misleading. It shows how short the history of the concept is. The tradition of the World Bank was launched by Ismail Serageldin in 1996 (Serageldin 1996).

My question is a minor one and may sound academic, but there is a reason for emphasising it.

One of the main promises of the concept of social capital lies in its potential - I cite Michael Woolcock - "to bridge orthodox disciplinary and methodological divides among scholars" of economics and sociology. This divide is not only among scholars, but also among 'practitioners and policymakers' as Woolcock continues. As we are interested in bridging social and economic divides, it is appropriate to fit the concept of capital into the framework of economics; it should be included in the conceptual family of physical (man-made or natural) capital and human capital. In this context social capital justifiably includes all social phenomena that influence the efficiency of the economy.

Human resources which have effects on the economy can be divided into two parts - human capital and social capital. Human capital is an individual concept covering individual properties. Social capital covers all those aspects of human resources which are social, i.e. which are properties of a society, be it smaller or larger.

I put my question in another form. Why not use the concept of social infrastructure, which may well include social norms and thus cover the same phenomena as social capital? Or why not use more contentual words like trust, reciprocity, accountability, transparency, communicativity, legality, etc.? What is the added value of social capital? Why use the controversial term capital?

My answer is that social capital integrates social phenomena with economics. Social capital interprets social infrastructure not only as a nominal category but also as an intentional one. The purpose of capital is return. In economics return is mainly understood as profit, economic growth or productivity. But it may or should be understood as better life and more sustainable development, as I will argue later on.

Social capital helps to cover all forms of capital in the framework of economics, a view clearly expressed in a publication of the World Bank (Serageldin 1996). From this perspective the definition of social capital could be the social phenomena that enable people to achieve economic efficiency and other desired goals.

Such a definition is very abstract, and would leave social capital as an umbrella concept probably seldom used in concrete research work, where contentual concepts like trust, reciprocity, networks etc. would be favoured. This kind of definition could parallel physical capital. Research on physical capital very seldom employs the concept of physical capital, which is a distinct notion with respect to other factors of production. And in that sense - and only in that - physical capital is a fruitful concept.

If defined in an abstract way, social capital would include all social aspects - in addition to physical and human capital - yielding the desired goals. There are powerful arguments that this distinction justifies the notion social capital.

One may argue that such a definition is too abstract; it is all things to all people and therefore nothing to anyone. It is without smell and taste. We need a more lean and mean definition.

My reply to such arguments is that we need to create a channel of communication between social and economic issues so that economists and sociologists (and those in politics concerned with economic and social issues) can start using the same language to create a productive argument and debate. The collision between social and economic issues will certainly not be without smell and taste.

Improved communication between sociology and economics will have a remarkable impact on how we understand the interaction between these two spheres. The idea of combining social structures and norms with economic efficiency is not a new one. The works of Adam Smith, Karl Marx, Emile Durkheim, Thorstein Veblen, Max Weber and many other classics of economics and sociology have all dealt with the issue. The concept of social capital resurrects the idea and carries it forward with the work done by institutional economics and the new economic sociology. What is new here is that the effects of social structures and social norms are the subject of concrete empirical research, which will happen in the most efficient way if disciplinary and political divides are bridged by an abstract definition of social capital. In research it is then consistent to use more concrete and contentual notions like trust, network, reciprocity etc. The notion of social capital is needed to emphasise the distinction of social phenomena from other kinds of production factors.

Developed countries and the trade-off-doctrine

Michael Woolcock writes: "... the most significant virtue of the discourse surrounding social capital is that it helps to bridge orthodox disciplinary and methodological divides among scholars, practitioners, and policymakers."

I would like again to stress this virtue - perhaps even more than Woolcock. I think that the slight difference in our approaches stems from the fact that Woolcock is mainly interested in development theory while my perspective is the situation in the developed countries. From the point of view of the latter, slightly different issues emerge compared with those raised by Woolcock.

I argue that the bridge between social and economic issues is better understood through development theory - both in its economic and sociological approaches - than using economic and sociological theories dealing with the developed countries. Although we see the importance of social capital more clearly in developing countries, we cannot say that social capital is a more relevant concept in developing countries than in our own societies. The concept of social capital may well be just as plausible and useful in the discourse dealing with the OECD countries. It is needed to open our eyes. In relation to the developing nations our eyes are already at least half open thanks to development theory, which has understood the interdependence between social and economic issues better than theories dealing with the developed countries.

There is a deep "orthodox disciplinary and methodological divide" between scholars of mainstream sociology and mainstream economics in relation to the developed countries. And there is also a deep divide between economic and social policy. Part of this divide is the trade-off doctrine, which is deeply rooted in mainstream economics and in economic policy. There is a strong belief here that expenditures on social activities cause 'welfare losses', i.e. they harm the efficiency of the economy. On the other hand, the trade-off doctrine common among social policy practitioners is that economic efficiency is socially and morally questionable.

In mainstream economics, economic development is usually understood and studied as a determinant of economic factors. To extend this view we need theories to explain the kind of influence that social networks, informal social structures, state institutional structures, social norms, trust etc. have on economic phenomena. If the concept of social capital contributes to this extension, the concept is welcome, and as a result we gain a better understanding of economic development.

In the other camp, 'economic efficiency' or 'economic growth' are concepts seldom heard in sociology. If the notion of social capital is successful in bridging social and economic divides in scientific and political discourse, it will represent a remarkable step in economics and in sociology alike, and may have substantial policy ramifications. This is even more of a pressing need in the developed than the developing countries, because it is easier for the scholars of economics and sociology to see the interaction in the latter, since most of them live in the former and are less able to perceive their own societies as a whole.

Social capital - economic imperialism?

Next I will comment on one policy argument against the concept of social capital. This argument takes issue with the fact that 'capital' is an economic term and thus inseparably connected with the word 'return'. The way of understanding the concept of social capital I have advocated above is especially vulnerable to this argument, which says that social capital means that the social aspect of life will be sacrificed on the altar of economic growth. Human relations will no longer be human but rather merely serving economic efficiency. The instrumental and economic-technological doctrines will colonise us. Social capital "encourages and rewards economic imperialism", as Woolcock puts it. The argument raises the big question of the economic-technological rationality of modernity.

In his definition of social capital Woolcock does not speak about return. He expresses the intention of social capital "to achieve desired goals". But if our ambition is to bridge sociology and economics, i.e. to link social aspects with the efficiency of the economy, we cannot avoid the problem. The function of capital is to yield a return in the economy, so we must deal with the problem of return.

The solution to the problem is approached by pondering how we measure the efficiency of the economy. Efficiency is always for something, it does not exist in isolation. The proper aims of an efficient economy may be quality of life and sustainable development. Standard textbooks of economics do not mention efficiency or growth as a final goal; typically they express it as 'to meet human needs'.

The next question is whether the traditional measures of economic efficiency are adequate. Does gross domestic product (GDP) measure the efficiency of the economy in a proper way? Certainly not. GDP is needed in measuring quality of life and sustainable development, and it is needed as an intermediate phase. But as a measure of the economic efficiency of a nation many other factors should be taken into account. This includes the work done in households, the amount of leisure hours, ecological factors, physical safety, social security, crime, equality, democracy, human rights and many other factors. Together, all these things measure quality of life and sustainable development. GDP is not enough, and as such misleading.

Some problems in the way GDP is calculated today are avoided by formulating a 'genuine progress indicator' (GPI) (Cobb et al. 1995; GPI Atlantic 1999) as an alternative to the GDP. In this indicator crime-related costs, for example, are deducted from the GDP, whereas in the GDP crime is seen as output; a broken window is fixed and the repair costs are included in the GDP. There are a lot of other adjustments to GDP in the GPI, including the value of housework and voluntary work in the third sector, as well as any increased leisure time. Deductions are made for pollution of the environment and for any decrease in the use of non-renewable natural resources. Many other corresponding adjustments are made. The GPI is also adjusted downwards if the rise in the GDP has affected only a small minority and the income level of the majority has fallen, as has occurred in recent years in the US, where GPI calculations have been made. According to these data the GPI started to fall in the early 1960s. In 1990-94, the GPI fell by 6.4 percent per year, while the corresponding change in the GDP was a rise of 1.1 percent per year in 1995.

The GPI does not take into account factors that are difficult or impossible to measure in money, such as health and many factors related to the physical environment. This pertains also to human rights, democracy, equality, participation and many other features of a socially desirable situation. Our goal is fruitful interaction between people. We focus not only on material living conditions, but rather address the question of what kind of social community we want to live in.

Thus we need new measures. Fortunately there is a promising renaissance of social indicators and other non-monetary measures of quality of life and sustainable development.

Another possibility is to incorporate within GDP many of those things which are now missing. Ethical and ecological principles can be incorporated in production by norms, taxes and fees. As a result many externalities are

incorporated within GDP. But there are limits to this. Both extra calculations for correcting GDP and extra social indicators are needed in addition to an "incorporated" GDP.

Adequate material subsistence is a precondition for a good life. In that sense the traditional measures of the return of capital are needed, but hopefully improved by correcting the major faults in GDP - as indicated by the 'genuine progress indicator' - and internalising the externalities. In addition we need non-monetary indicators. If the return on social capital were measured by indicators of quality of life and sustainable development, wouldn't everybody love economic growth - and social capital?

Virtuous circle?

I conclude my comment with an optimistic perspective. We have good reasons to argue that the measures of social capital constitute part of the measures of quality of life and sustainable development. Social capital is - by definition - an instrument of the efficiency of the economy. The efficiency of the economy should be measured by quality of life and sustainable development. Accordingly, social capital is at the same time an instrument and an intended output. Thus we have a virtuous circle.

It is an empirical hypothesis that social capital has much in common with good life and sustainable development. It must be verified. The empirical study of this worthwhile topic is in its early stages, but the prospects are promising.

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Social Capital in Transition Economies

Comments on Woolcock's Article

Pekka Sutela

The understanding of social capital, as presented skilfully and with great erudition by Michael Woolcock, is rich with themes from classical sociology. For a Finn who studied sociology at Helsinki University at the turn of the 1960s and 1970s, it resonates well with the catchwords of the topical macrosociological teachings of Erik Allardt at the time. Society, for him, was about values, norms and expectations. This is for practical purposes almost identical with the definition of social capital offered by Woolcock.

Should one therefore simply argue that social capital is the current buzzword for society and culture? No; social capital is also a vehicle of discourse. I have great sympathy with the notion if it helps, as Woolcock claims it will, to convince modern sociologists that their discipline is more than a literary study. Thus social capital might be a way of winning many sociologists back to their own discipline. And even better if it convinces at least some economists - my own breed - that others might also have something useful to say about what used to be called the decomposition of total factor productivity in growth theory. There will never be total unity of the social studies, but there should be much more cross influence. Until now, a major stumbling block has been the lack of theory and method in sociology. While social capital as such will not remedy this problem, it might contribute to progress.

But if we understand that social capital is about the fundamental issues of sociological theory, we also know that it cannot prove to be the miracle of interpretation that will help us solve problems. If a final social theory were possible, we probably would already have it.

In particular, it seems to me that the great social changes such as seen in the former socialist countries during the last decade or so do not lend

themselves easily to sociological interpretation. Sociology might well be a discipline for more normal times, while in spells of rupture history and the study of the state have the upper hand. Let me illustrate this provocative and unfashionable claim by presenting the case best known to me, the transitions - or transformations, if you wish - in Central Europe and the former Soviet Union (FSU). Let us take Estonia as our example for Central Europe and Russia for the FSU.

It was assumed from the very beginning that the transitional recession caused by systemic change and the accompanying policy stances would lead to a larger output loss in the FSU than elsewhere. Russia stood to benefit from several aspects of the trade shift, but this would be outweighed by the difficulties caused by its greater remoteness from a market economy. But the comparison was usually in terms of Russia vs Poland. If we look at Russia vs Estonia, the relative advantage of the initial conditions of the smaller country becomes much less obvious. One can even argue that in many, perhaps most, respects Estonia had worse initial conditions than Russia. It benefited from a living memory of independence, (partial) democracy and a market economy. Estonia could also capitalise on the geographical and cultural proximity of the Nordic countries. But otherwise the country had a deep linguistic cleavage, no economically valuable natural resources, the need to establish all national institutions from scratch, a weak industrial base and the necessity of a swift turnabout in external economic relations.

Estonia's tradition of holding a national singing festival could perhaps be seen as one instance of developed social capital, but the existence of national traditions did not prevent the inter-war Estonia from lapsing through disorganised politics into authoritarian rule. The country also relinquished sovereignty with almost no resistance in 1939-1940. The politicians who sung together at the time of the Singing Revolution in 1988-1991 have not avoided being ferociously picked-off since then. There are no studies showing that Estonia has had exceptionally good social capital.

Nevertheless, the country has emerged - together with Poland and Latvia - among the fastest growing transition economies. Less than ten years after regaining independence, it seems that Estonia might well accede to the European Union in the first wave of Eastern Enlargement. The explanation for this does not need to involve social capital.

The transition from the Soviet to the European model has been a top-down process. This is true everywhere. What differentiates success from failure is whether the state - the political organisation of the society - has been able and willing to create the appropriate framework for private activities. This is true in countries like Poland and Estonia, but not in Russia. Why?

One explanation favoured especially by liberally-minded economists relates to the weakness of the state. A weak state fails to establish a level playing field; it is unable to set consistent and relevant goals and does not have the necessary resources to achieve whatever goals it may have set. The consequences are a familiar litany: rent-seeking, widespread corruption, a money-grabbing government, and huge gulfs between goals and resources,

all of which lead - inter alia - to arrears, a virtual economy and finally to domestic and foreign defaults. In the case of Russia, about which feelings tend to be polarised, the prevailing discussion now is whether a continued muddling through is possible or whether the country will join the sorry ranks of failed states - possibly with dramatic consequences.

But how is a weak state to be explained? Surely some theoretical construction linking the state with the prevailing social capital can be imagined, but resolving such a tangled web would amount to mastering possibly the most difficult of all social study questions, the relation between the state and society. Fortunately, such heroic endeavours are unnecessary, because looking at the state in a historical perspective is enough.

The Estonians (and similarly the other Central Europeans) had two things the Russians were devoid of. First, they had a relatively well-defined goal. In the early 1990s, the essence of the transition throughout Central Europe was defined as a return to Europe. In practice, this meant gaining membership as fast as possible to the EU, NATO, OECD and the rest of the 'alphabet soup'. These clubs set requirements for potential members that together amount to a policy conditionality vastly more multi-faceted, binding and detailed than anything that the international financial institutions require from their clients, Russia included. This conditionality requires consistent and credible state policies that create and foster a reasonably appropriate framework for private activities. Although Estonia now has the eighth government since independence, the frequent political changes have had almost no impact on the policies pursued.

This does not imply that being a normal European state is the Panglossian state of affairs. But it does mean a crucial degree of consistency, predictability and credibility - the attributes that state policies need, or so economic theory tells us. Neither does it imply that being a full member of the alphabet soup is necessarily the optimum. On the contrary, it seems evident that policy conditionality is stronger in the pre-accession phase than after it: look at the Greek case. Therefore, from an technocratic point of view, global welfare would be maximised if candidates were kept as candidates as long as possible without destroying the credibility of their membership aspiration. But this is tricky to judge and probably politically impossible to implement anyway: see Turkey and Bulgaria.

The implication in Russia's case is that a credible conditionality could not have been created by promising Russia all these memberships provided it fulfilled the normal criteria. For the underlying problem is deeper. Russia itself could not set membership as its goal; it cannot return to Europe because it never was a normal European country. That is at least what most Russians have always been convinced of. The essence of being Russian is being uncertain about what that actually means. Russian literature and social thought are infused with the question of what Russia is: where does it come from and where is it going? The answer - always - is a paraphrase of this eternal question. And - this is the crucial thing - if you do not know where you want to go, any road will take you there; if this is not an old Russian

saying, it could be. Any road will do - is this not an apt description of Russian policies during the last fifteen years?

Because the state did not know its destination, it was weak. This is the forward-looking perspective of the historical explanation for the contrast between Russia and Estonia. The second is a backward-looking aspect. For Estonians, a handy explanation was available for all that was imperfect, wrong or bad in their society: the Soviet army had imposed socialism upon them. This was something totally alien, a consequence solely of the occupation. It was therefore easy for Estonians to make a clear mental cut with history (though many consequences naturally remained, not least of all the non-Estonian speaking residents). This was not possible for the Russians. They had themselves developed, implemented, defended and supported Soviet socialism. Indeed, the USSR could be seen as Russia's proudest ever achievement. Therefore, no clear-cut break with history was possible in any respect. And it shows.

This is a simple historical explanation, and well in line with all available empirical evidence. Although the concept of social capital, and sociology in general, are not needed here, they are likely to become clearly more relevant when more of the sound and fury of history had abated and the more subtle differences between societies begin to emerge. Even then some of the questions to be posed and answers found might not be the ones we expect. It is sometimes taken for granted, for instance, that Russia is exceptionally short of trust among people, which is one of the central aspects of social capital. But on reflection, a cash-based economy is probably among all exchange economies the one that needs the least trust. Only trust in the value of money, that is in the state, is needed. In a money transfer-based exchange economy, trust in the banking system is also needed. The post-Soviet type of economy, on the other hand, is a re-demonetised exchange economy where barter dominates. The usual form of barter is not the relatively straightforward even if inefficient bilateral kind. More common are multi-lateral barter chains, often complex in nature, that would seem to demand a higher degree of trust among participants than a money economy. The failures of the state to pursue efficiency-oriented policies created this barter-based economy, and thus the state could not be trusted. This 'trust vacuum' demanded the existence or creation of trust among enterprises, many of whom may have had no prior knowledge of one another. Could Russia actually become a high trust economy in reality?

Issues of social capital - i.e. the fundamental issues of social science - will continue to occupy us for some time to come.

Can Regional Economic Growth be Explained by Social Capital?

The Production Function:
an Empirical Experiment with
a Provincial Dataset Covering
the Period from 1970 to 1995

Aku Alanen - Lea Pelkonen

Background

Interest in the concept of social capital has grown tremendously in recent years. The debate has strong theoretical overtones, leaning perhaps more towards sociology and political science than economics.

Much of the empirical work to date has consisted of country comparisons and analysis of single regions. In the United States one particularly important line of work is represented by comparisons of ethnic groups. Following publication of Putnam's seminal study on Italy one might have expected a growing tide of interest in intra-country comparisons, but at least in European regional studies this has not happened, except for Italy. As far as we can see it is now up to empirical regional studies to provide something for the theoretical debate to chew on: without this empirical input it is unlikely that the theoretical debate will be able to make very much progress. (1)

Our own study is a strictly empirical piece of work in which we offer no in-depth conceptual analysis. Social capital, to us, serves as an umbrella concept that takes in a wide range of terminology. (2) In a somewhat crude definition, we regard social capital as the 'effects of civic contacts, networks and trust upon the economic production of a community'. From this vantage-point our intention here is to try and identify indicators describing these networks and relationships of trust and to establish whether they are related in any way to the value of production. This analysis could, of course, be conducted within a more traditional framework by looking simply at the interaction between social and economic elements, but we feel that the concept of social capital may well help to give a firmer structure to our analysis.

One of the key problems in the study of social capital has to do with research methodology. Do we use different methods in cross-country studies and in regional comparisons within the same country? In principle the indicators may well be the same, yet even such basic concepts as trust may be understood somewhat differently in these two research settings.

One of the reasons for the backwardness of comparative empirical research lies no doubt in the lack of statistical data. To compile statistics on matters such as norms and trust is in itself extremely difficult and demanding; and to have to produce these statistics oneself, for one's own research project, certainly does not make things any easier. Not everyone can enjoy the same opportunity as Putnam and others to work on a series of comparative studies over a 20-year period.

Most of the empirical work in regional studies, we believe, has been concerned with developing countries. This is explained by World Bank interests and priorities: with most of its operations concentrating on the Third World, this is also where it will be doing most of its research into questions of social capital. The Bank is perhaps the world's leading proponent of this theme, which means that the agenda is also largely determined by its policy line. In the present case, for instance, we have found only very few previous studies in Europe which pursue the same line of inquiry as we do here. (3)

In a European context, we feel, social capital needs to be treated differently than it is in the Third World; this applies both to the weight it is given and to its theoretical content. The exact subject of the study and the approaches adopted will of course largely be determined by the statistical data available to empirical research. For this reason our paper is essentially an experimental effort; we want to establish whether the approach suggested makes sense in the first place. In contrast to the situation with many other phenomena, comparative analysis of social capital is in a sense more difficult in a regional than a cross-country setting. Key concepts such as trust, norms and civil society are fundamentally collective notions, and it is extremely difficult statistically to isolate their effects to a certain province or municipality (4). It may well be much harder to uncover differences in levels of trust between regions than between countries.

Overall, the findings of our study suggest that during the 1970s, and particularly in the first half of the decade, the indicators we used for the level of municipal investment in increasing social capital do indeed correlate statistically with economic production in the Finnish regions. In the 1980s, this statistical link is clearly less strong. However, if we look at the whole period under review from 1970 to 1990, there is certainly a detectable and consistent statistical association between social factors and regional growth.

Crime and other behavioural indicators also showed statistically significant associations with economic growth, but it is not easy to interpret the meaning of this. Electoral turnout was not found to have any statistical association with regional economic growth. By contrast, participation in leisure organisations showed statistical correlation with economic growth during the 1980s, whereas participation in interest organisations and religious movements did not.

By and large our results are consistent with the findings of studies that have used materials from different countries to compare the prevailing climate of trust (e.g. Hjerpe 1998).

Neoclassical model of the economy

There are at least two basic ways to measure the impacts of social capital on economic performance. The first is to start out from the mainstream growth models of traditional economics and to insert in them indicators of social capital. The second option is to leave these growth models aside and to rely instead on correlations and regressions; this method has been employed, among others, by Knack and Keefer (1997) in an important empirical study comparing the economic payoffs of social capital in different countries. However, unlike the growth models, this latter approach does not allow for dynamic comparisons over time.

Solow's neoclassical growth model has served as a standard for the empirical testing of growth theories ever since the 1950s. Over the years this basic model has been augmented by including of different variables depending on the perspective adopted in each case.

The basic model is a Cobb-Douglas production function $Y = f(A, K, L)$, where society's production Y is usually measured as GDP, A is a technical parameter, L is labour force input and K is physical capital. GDP simply measures the value of production, i.e. goods and services.

Elaborations of GDP and the growth model

A number of indicators have been developed in recent years to complement national income accounting and GDP. Most typically, these indicators describe different kinds of social variables; in this sense they might be assumed to generate growing interest in issues of social capital. (5)

One of the tools which may be expected to assume an important role in assessing and explaining the economic impacts of social capital is the statistical system known as SAM (Social Accounting Matrix). SAM has been quite widely adopted for purposes of social accounting and looks set to gain increasing significance in the work of statistical agencies.

One possible option is to develop satellite accounts for GDP without an umbrella system, and then later to try and establish a link between these satellite accounts. Development efforts in this area have concentrated on household accounting systems and on green accounting. As yet, no satellite accounts have been developed for the measurement of social capital, or at least there are no such accounts in widespread use.

If we want to measure economic output not in terms of production growth but, say, welfare growth, then we will need to find some other measure to replace GDP. One of these new measures of welfare is the Genuine Progress Indicator, or GPI (6) Recent applications have shown that while GDP has increased in the United States since the 1970s, the value of GPI has fallen (Cobb, Halstead and Rowe 1995), i.e. the output measure of welfare or quality of life has declined. However, these new substitutes for GDP have

been heavily criticised on both theoretical and empirical grounds (e.g. Neumayer 1999). We have little information on these new applications in other countries, especially for individual regions (except maybe in Canada). Indeed, so far in the European context GPI is merely an example of one possible direction that might be pursued. If GPI served as an indicator of economic welfare output or Y in a growth model, this would be written in the following form:

$$Y = f(A, (\text{GDP}), K, L \text{ etc.}).$$

However, we have no intention in this paper to use GPI or any other modifications of GDP for measuring economic performance; our calculations are based on the traditional method in which production is measured in terms of GDP. We realise that in order to explain the growth of welfare through social capital we would need to have an indicator like GPI, but then our explanations would necessarily be extremely complex if we had the same items on both sides of the equation. However, in future it could be even more interesting to study the impact of social capital on welfare than on production.

Endogenous growth theory

In neoclassical growth models growth was explained by an increase in the number of production factors and by technological development. The latter was exogenously given. In the new endogenous growth model, technological development is determined from within the economic region. The focal concern in the new growth theory models has been with the role of human capital or education.

One of the basic tenets of neoclassical growth theory is that if a certain growth factor in the production function is increased, it will at some stage lead to increasing or diminishing returns to scale. An increase in returns depends on a wide range of factors in the baseline situation and on how balanced is the increase of each input, etc. The new endogenous growth model does not have the assumption of diminishing returns with increased inputs, but an increase in education or in human capital is considered an external effect operating within the economy (or region) which offsets the diminishing returns to scale. This is based on the tenet that education is an asset that does not diminish when used or transferred, but rather creates new activity. Continuous overeducation, on the other hand, would not have any effect on returns. This issue has been at the centre of much debate, but this is not the place to dwell upon the various assumptions and results that have been presented (e.g. Lucas 1988; Romer 1986, 1990).

Analysis based on an endogenous growth model

Endogenous growth theory thus has it that a region can, through its own actions, shape and influence the conditions for economic growth and growth

itself, and that these actions can be measured. This new theory of growth provides the basis for our analysis of social factors. More specifically, the model we use is the Mankiw-Romer-Weil growth model, which is perhaps the most widely used economic growth model, at least in regional analyses of educational level.

This growth model is again a Cobb-Douglas type model in which H refers to educational level and t to time span.

$$Y = K(t)^\alpha H(t)^\beta [A(t) L(t)]^{1-\alpha-\beta}$$

The endogenous growth model is most typically used for measuring the impacts of educational level on economic growth. Our idea in this paper can also be traced back to an empirical experiment in which the aim was to assess, at the provincial level, the impacts of educational level on economic growth in eight industries during 1970-1995 (Pelkonen and Ylönen 1998) (7). We started out with the assumption that social capital is a public commodity in the same way as education, the only difference being that social capital is a collective, and education a private public commodity.

Our baseline assumption was that certain social factors could behave in the model in the same way as human capital. Increased trust will also have positive external effects. If trust is increased beyond a critical point, however, it may lead to diminishing returns. (8) In the theoretical debate on social capital the problem of excessive trust is usually associated with strong bonds among people. If trust is confined to family members and to the immediate circle, this may have an inverse relationship to economic growth, because misplaced trust prevents or undermines trust in society at large (e.g. Putnam 1993; Knack and Keefer 1997). Likewise, if people participate in different kinds of civic organisations during their leisure time, this will, up to a certain point, increase their skills of networking and interaction and thereby increase production. However, if people spend all their energies on civic action, for instance during periods of intense political activity, this may result in diminishing returns. In other words the same rule holds good for the amount of social capital as applies to other types of capital: ideally there should not be too much of it nor too little.

We maintain then that the idea of endogenous growth could well be expanded to the domain of social capital, at least at the theoretical plane. It is not immediately clear whether this can be applied to all types of indicators, because it is much harder to measure social capital than it is to measure human capital.

We have seen no previous efforts to augment a growth model in this way, but can see no reason why it cannot be done. Following the inclusion of social factors, the basic version of our model is written as follows:

$$Y = K(t)^\alpha H(t)^\beta S(t)^\gamma [A(t) L(t)]^{1-\alpha-\beta-\gamma}$$

where S refers to different indicators of social capital. Our regression analyses are aimed at establishing the effects of changes in S on Y .

Can Putnam's Italian experiment serve as a model for Finland?

In principle we have the same goals and intentions as Putnam and his colleagues, but in practice we do virtually everything differently. Putnam was interested in the impacts of Italian civil society and the reform of regional administration on economic development. We have excluded from our analysis the political role of institutions and civil society, a key concern of Putnam, who set out to establish the effects of institutions on regional development and on differences in that development. There are two sets of reasons for this omission: first of all the decision had to do with the choice of regional classification employed in our study, and secondly the inclusion of this aspect would have made our experiment far too extensive.

For reasons of research economy, we assume, Putnam chose to focus on a couple of regions in both southern and northern Italy, although the number of regions did vary at different stages of the study. Putnam's primary source consisted of interview data; statistical materials, which sometimes encompassed all regions in the country, served a complementary role - at least this is the impression one gets from the book. Putnam was chiefly interested in studying the operation and reform of institutions. The concept of social capital, it seems to us, was largely a by-product of his analysis - an outcome rather than an original objective.

In our method, by contrast, interview data had little more than a marginal role, quite simply because no suitable material was available for our purposes. (9) It is unfortunate that in his later studies in the US, Putnam has not (to the best of our knowledge) compared social capital at the regional level.

While the experiences gained with the Italian material are no doubt valid and applicable in that particular context, we do have serious reservations about importing them to such a country as Finland. Italy is a land of sharp contrasts and divisions, whereas Finland and the other Nordic countries on most indicators show only minor regional differences (e.g. regional differences in per capita GDP are among the smallest in the whole of Europe (Kangasharju 1999)). There are also strong traditions of state dependence in the Nordic countries, which is clearly reflected in research as well. In spite of their cultural differences, there is a consistent pattern of the social state exerting strong influence in all domains of society. Further, although people in Finland are certainly no less keen on sports than the Italians, the role of sports organisations is perhaps less important.

If we were to apply Putnam's method to a similar study in Finland, we would need to select perhaps a couple of regions (municipalities or districts) from eastern, northern, central and southern Finland, as well as from the west coast, and then do separate interview studies in these regions, perhaps focusing on the municipal level. This, however, would exclude the use of GDP and other similar indicators for the measurement of economic production. Besides, this kind of design requires very detailed and extensive knowledge of the target regions at the recruitment stage. We opted for a different strategy and included all regions in our analysis.

Problems related to the selection and use of statistical data

Why use provinces instead of a more endogenous mix of regions?

For the purposes of our analysis we chose to use the old division of state administration into 12 provinces. This was based primarily on pragmatic considerations. First of all this is the only classification for which data are available on GDP and investments prior to 1988; even then we had to content ourselves with five-year intervals because regional accounts have only been compiled every five years. This choice had important implications with respect to the focus of our study because it meant we had to omit from consideration all the institutional material. It is precisely through an institutional analysis that we might have been able to tie up the theory and practice of social capital with one branch of mainstream economics, i.e. that of institutional economics.

It is also important to note that a province is not an economic region in the conventional sense of the term. It is not an organisation based on intra-regional cooperation, but a definition imposed from the outside by state administration and in that sense unsuited to testing an endogenous model. This is why our study was essentially an experimental piece of work in which a chief concern was to search for indicators of social capital.

If we had contented ourselves with the old division into four major areas, that would have given us access to a longer time series of interview materials, particularly on time use and leisure activities. However, this division is far too heterogeneous for the purposes of this kind of regional study, leaving internal differences undetected. Besides, as far as we can establish, these four regions are not nearly as clear-cut constructs as the regions in Italy. One option, of course, would have been to divide Finland into two or three regions and test this idea.

Indeed, it is our intention to follow up this research with a regional division that better corresponds to the idea of both economic and endogenous regions; possible candidates include the new units of regional administration ('maakunta' or region), or districts (NUTS 3 or 4 level). The municipality would be an ideal unit as far as the requirement of endogeneity is concerned, but not from the economic point of view.

Why the time period 1970-1995?

We chose to focus on the period 1970-1995 for purely pragmatic reasons; this is the only period for which comparative data are available. Regional GDP data are available for 1960, but the integration of these statistics with other sources proved too difficult and they were therefore excluded from the comparison. Appendix 1 describes in closer detail the process of compiling GDP, investment, labour force and educational indicators and the problems involved.

Selection criteria for indicators of social capital

To comply with the idea of endogenous growth theory our indicators of social capital should be derived from the regional level, reflecting the impacts of regional actors on local development. Indicators derived from the level of

the state or from a major corporation are unlikely to shed any light on means and endeavours at the regional level. In practice, of course, it is extremely difficult to make this distinction between regional activities and activities undertaken by the state or a major corporation within that same area. In Finland, for instance, investment programmes by local municipalities to increase social capital are often funded by state subsidies.

We chose to look at three basic types of indicators, initially searching for examples from each category and then making the final choice not on the basis of suitability but availability. It was surprisingly difficult to find suitable indicators, particularly in the second and third categories: as well as having to meet the requirements of the time series and regional representativeness, they also had to fit in with the existing data on economic production.

First of all we tried to find indicators describing social behaviour, either negative (e.g. suicides) or positive (e.g. participation in voluntary organisations). A major difficulty with this set of indicators is that there is no way of knowing whether they genuinely describe social factors or possibly some other kinds.

In the second category our concern was with the question of how much the regional society has been willing to invest in the promotion of social behaviour. Here the indicators describe the volume or value of input, measured on the basis of certain expense items in local authorities' financial statements. An input-output analysis might seem a tempting option, but in reality there are so many mediating factors that this is hardly feasible. For instance, the most affluent regions will probably have had more resources to invest in the promotion of social capital to start with, which will be reflected in the results even though the initial investment was made before the measurements.

The third category of indicators consists of opinion polls, which typically have been used in country comparisons to describe, for instance, the confidence shown by citizens in their own country; this, as far as we can judge, is the primary method that Putnam used. In Finland there are a number of institutions which regularly conduct interview surveys that as such would be well-suited to the measurement of social capital. However, the problem is that these interview materials are not comparable over time or across different regions. We do not know of any series of interview surveys in which social capital (trust etc.) would have been measured from the 1970s onwards by using even roughly the same items with regionally representative samples. One might, of course, consider the option of conducting an interview survey in, say, five districts, in which case we would not need a very large sample. If it were possible to establish that these five districts were typical of a larger region, then this might indeed be a sufficient number; however this would be extremely difficult to do and the analysis itself would need to be based on a crude regional classification (such as the division described earlier into four major regions).

There are some interview materials that might lend themselves to this kind of analysis, but so far this is not possible.

Regression results

Behaviour indicators

We looked at a very large number of behaviour indicators and decided eventually in favour of two that describe positive trust and two that describe negative trust. The choice was based not only on considerations of content and applicability, but also on the availability of data.

Electoral turnout

We selected three sets of indicators to measure political trust, i.e. those describing electoral turnout, membership numbers and participation. In addition, we had data from interview surveys. The choice of electoral turnout is based on it being the only measure for which comparative data are available. Turnout for municipal elections was measured because it was assumed that this provides a more accurate reflection of trust at the local level. We concede that electoral turnout, in itself, is not a very significant measure, but it is nonetheless the only one available. The biggest political parties and Gallup Finland have conducted regular questionnaires since 1973 to measure various aspects of political trust. Party-political trust is obviously not the same thing as trust in society, but at least so far no other time series are available at the provincial level.

The use of electoral turnout as a measure of trust involved a number of problems. Turnout rates have been steadily declining for a long time, but it is extremely difficult to explain and understand the reasons behind this trend. It is not necessarily an indication of growing distrust in society at large, but people may for instance feel that they have better and more meaningful ways of making their voice heard than through political parties. Indeed, it could be argued that a declining turnout rate in an area indicates a positive search for new channels of influence, i.e. an increasing sense of trust. However, our more traditional null hypothesis was that a decline in electoral turnout reflects a decline in trust.

Results: Electoral turnout seemed to show a negative trend in relation to economic growth in the 1970s, but from then on a positive trend. Statistically significant associations were noted for 1970-75 and 1975-80 only. On this basis we can draw no firm conclusions about electoral turnout as an indicator of social capital and social trust.

Suicides

We opted to include suicides as one of our indicators in spite of their inherent social ambivalence. We regard suicide as a negative manifestation of social trust. The literature generally shares the same premise, arguing that integration with the social environment is associated with a low level of suicide mortality. The reasons may well lie elsewhere, but suicide research has tended largely to concentrate purely on social issues. For instance, Durkheim (1985) in his classic work associated the increase in suicides with economic changes and crises. For him, income level or production level was not the most significant

factor; in fact high-income regions very often tended to have higher suicide rates.

In Finland there have long been very marked regional differences in suicide mortality. Research at the municipal level has shown that regions undergoing dramatic social and economic changes have also tended to report an increased number of suicides (Lönnqvist and Salovainio 1989, 114).

Our statistical measure of suicides was the number of suicides committed by males aged ten or over by province (i.e. the ratio of committed suicides to the population in question) at five-year intervals.

Results: It seems that during the 1970s suicides showed a negative relationship to economic growth, but since the 1980s the association has been positive. Statistically significant associations were found for 1970-75 and 1990-95. The number of statistically significant observations increased when GDP growth was calculated per capita, but the coefficients of determination declined to some extent compared to calculations of GDP per employed person.

Participation in associations

One of the key explanations for the success of northern Italy in Putnam's analysis was the large number of clubs (many associated with football). Putnam argues that the sense of trust people build up in these clubs (i.e. not the traditional strong bonds of trust among family members) may also be conducive to an increased sense of trust in other domains of society and the economy. More recently in his studies on the United States Putnam has observed a decline in citizen participation in various organisations. He maintains that social capital has declined and that this has affected developments in general (Putnam 1995).

Many of Putnam's ideas have met with a favourable reception among researchers concerned with questions of social capital, but his contentions with regard to participation in civic organisations have still not been corroborated by concrete research (e.g. Inglehart 1997, 227). It is indeed quite possible that Putnam's findings are peculiar to the Italian case or the regional comparisons he made in Italy. Knack and Keefer (1997) have carried out country comparisons to study the impacts of participation in organisations on trust and on GDP growth. In these studies they make a distinction between leisure organisations, interest organisations and religious organisations. The results from different studies are not fully consistent but they reveal no evidence of any links between increased participation in organisations and increased trust. Some of the positive effects of participation in organisations may be offset by negative influences. The use of such participation as an indicator of social capital has also been sharply criticised in the debate on regional development in Russia. Critics have pointed out that, for instance, climate can play a far more important role in explaining the number of organisations than any other factor (Harter 1997).

In a more in-depth analysis of participation in organisations, the concept of social capital may also be criticised for omitting to deal with conflicts

classes and politics. In its neutrality it can also be regarded as a theory that supports the ideology of the dominant groups in society, in that it implicitly emphasises trust and confidence in the prevailing circumstances. On the other hand, the effects of social trust can also be weighed in the context of campaigns aimed at social change. Likewise, the critical stance taken by the theory of social capital to fraternal networks seems to imply that in order to work properly, the theory requires genuine democracy and in this sense it can be taken to serve as a political emblem.

In Finland there has been very little research to study the connections between participation in organisations and economic development; even the seminal thesis by Martti Siisiäinen focuses more on the theoretical and political side of organisations. There is also very limited empirical evidence on the regional variation of participation in organisations. (10)

In our analyses then we have had to content ourselves with the data and results from the 1981 and 1991 leisure surveys and from time-use studies. Reasonably similar data would have been available from the 1970s on the membership of organisations and on time use, but these were based on a crude regional division.

Results: Statistically significant positive values were obtained for the association of total participation in organisations, membership of sports organisations and membership of cultural and leisure organisations with GDP growth during 1980-1985. By contrast, membership of religious organisations, trade unions or political parties failed to show any statistically significant correlation with economic returns. Overall, then, the results suggest that membership in a special interest group has less economic impact than participation in leisure activities.

We also calculated regressions from the time-use studies (which measured the amount of time people spent in organisations) relative to economic growth. These calculations produced no statistically significant results. Since the time-use surveys did not distinguish between different types of organisations, we were also unable to establish whether there is any difference between the impacts of participation in different types of organisations.

Crime

The regional crime rate was taken as an indicator of social distrust. We made a distinction between three types of crime: property offences, traffic violations and all crimes. Our statistical measure was the number of crimes reported to the police relative to the region's population.

Criminal offenders may show high levels of trust towards other criminals, and mistrust towards the rest of society. A criminal offence directed at law-abiding individuals will adversely affect the sense of trust experienced by the majority of the population. Our null hypothesis was that the lower the level of crime, the greater the volume of social capital, i.e. the greater the trust in the region. This conflicts with the fact that economic growth often seems to push up crime rates as well, but we obviously had to choose some null hypothesis.

In the light of the research evidence available it seems that crime rates do tie in with trends in economic development (Siren 1984, 1997): economic growth often accompanies increased crime rates. There is only limited research in Finland on regional trends in crime rates. The indicator we used in this analysis is the number of crimes reported to the police relative to the population in the region.

Regional variation in crime may often be explained by hidden factors within crime statistics. There is no doubt that regions differ to some extent in terms of how readily crimes are reported to the police; but if these differences are very great, this may completely defeat our analysis. However, we have no evidence on the true extent of these differences. Analysis of the breakdown of criminal offences by type could help to shed some light on the issue. For instance, the share of economic crimes may be higher in some regions, and attitudes towards economic crime or certain other types may be more lenient. There is some evidence that court sentences for similar offences may vary quite widely between eastern and western Finland, for instance.

Results: Statistically highly significant values were obtained for the crime variables, especially during the first three periods of 1970-75, 1975-80 and 1980-85. The trends would seem to vary somewhat according to the economic trends, i.e. during periods of growth they were positive and during periods of economic decline negative. The interpretation suggested by these figures is that the role of social capital is highlighted during periods of decline.

Input indicators

The choice of input indicators closely reflects the discussion of how and to what extent a society can increase or grow social capital, or whether it is even possible intentionally in general. We know so little about the real effects of different social inputs on social capital. In principle we accept the idea that intentional growth is possible.

Our input indicators consist of certain expense items from local municipal budgets, summed at provincial level. Investment expenditure by municipalities would provide a better measure, but no disaggregated investment statistics are available from municipal balance sheets prior to the 1990s. Besides, our assumption was that the social preferences of local authorities should at least to some extent be reflected in their operational economies, i.e. if the municipalities in a province invest in social capital, then this should be reflected in the region's overall economy. We did not want to be discouraged by the fact that municipal balance sheet statistics are notorious for being open to different interpretations, particularly on account of the long time series. One major problem of interpretation derives from the summing-up at provincial level: some municipalities emphasise the factor of social capital and others do not, which means that the result at provincial level will tally with neither. The province is not normally the most important target for municipal identification, although there are again regional differences in this respect.

We chose the following expense items as our indicators of social capital: expenditure on sports and outdoor recreation, expenditure on public libraries, expenditure on parks and other similar areas, and expenditure on adult education centres and workers' institutes. Provincial per capita indices were calculated for five-year periods in 1970-95. Regression analyses yielded positive and statistically significant results for all these indices in the 1970s. The economic recession meant that the results for 1990-95 were partly irrelevant, and therefore ignored. Statistical significance disappeared by the 1980s. However, total growth regression for 1970-1990 also showed statistically significant results on all the variables mentioned.

One possible interpretation for these findings is to suggest that municipal economies in Finland showed a tendency towards convergence in 1970-80 and after 1985, perhaps because of the state subsidy system or for some other reason. In the long term, however, municipal investment in social capital in 1970-90 appears to have shown a positive correlation with economic growth.

To test these findings we inserted some other expense items (expenditure on education and on health care services) from municipal budgets into the model and conducted regression analyses. For these items no statistically significant results were obtained for any of the periods under review.

Conclusions

Our aim in this study was to search for indicators describing social life and to establish with a growth model whether these indicators were associated with per capita (and per employed person) fixed-price GDP growth at the provincial level in 1970-95.

In the 1970s especially during the first half of the decade, it would seem that social capital did correlate statistically with economic production, whereas in the 1980s the statistical link seemed to disappear. The onset of the deep economic recession of the early 1990s meant we were unable to conduct a proper statistical analysis for the 1990s because there was no growth in fixed-price GDP, particularly with respect to the per capita figures. Therefore, the comparisons for most indicators were restricted to the period of consistent growth from 1970 to 1990. Indeed, during this period statistically significant figures were obtained for quite a few indicators, so much so that it can be tentatively concluded that social capital to some extent statistically explains economic growth. Whether there is a connection in reality is, of course, much harder to establish.

One possible interpretation is that during periods of slow economic growth the role of social capital is highlighted in Finnish regional development (and can be detected in statistical sources), whereas during periods of economic revival indicators of social capital no longer explain regional growth. This, of course, is a phenomenon we have learned about in other contexts: once the importance of something has exceeded a certain quantitative or qualitative threshold it is impossible to distinguish its individual influence, since it is merged with other factors. This may also go

some way towards explaining why studies of social capital have largely concentrated on developing countries. On the other hand this may also be an overinterpretation because we did not study the link between social capital and economic growth at the country level.

In a self-critical interpretation it might also be suggested that our statistics are having difficulty in keeping up with the pace of change as regards social phenomena and different kinds of networks. We simply do not know how to produce statistics that adequately describe advanced, modern society during periods of growth and prosperity. We know that there are certain phenomena and relations of interaction that remain hidden, but we do not know how to uncover them. (11)

To obtain two sets of figures that would allow us to check our findings, we used our model to compute regional GDP growth for both the employed population and per capita; no such comparison would of course be possible if we looked simply at the volume of GDP because of differences in the size of different regions. Per capita growth tended to show slightly more statistically significant results. Was this attributable to migration; did something else perhaps happen in Finnish society; or does the explanation lie in the statistics, or perhaps in regional convergence?

One possible explanation is that our measurements were taken at five-year intervals throughout; therefore, if the trends had shifted in the interim, this may have given rise to bias. However, since this is a first experiment with this kind of research method, we must exercise special caution in drawing our conclusions.

It is commonly assumed that human capital is an individual property and social capital a collective one. Now, if trust is collective, there may still be groups of people in society who do not share this feeling; certain minorities, for instance, may well be excluded from some areas of social life. However, if minorities such as poor people or those with a low level of education are more or less evenly scattered across the country, then the lack of social capital should also be equally distributed, and thus there is no way of uncovering the shortage. The result in itself is nonetheless quite interesting in that the shortage in this case exhibits no regional dimension.

Notes

1. Social capital as a black box

Critics have attacked the concept of social capital as too broad and sweeping, purporting to explain everything but in the end not really explaining anything. It has been likened to a dummy variable or a black box whose contents remain a mystery. The only way to respond to this kind of criticism is through sound empirical work

2. Theory versus practice

A loose umbrella concept, we feel, allows for a wider range of experimental empirical research. If we wanted to categorise or compare our work with other lines of research on social capital, it is perhaps most conveniently slotted under the second, pragmatic category in Woolcock's three-tiered classification in this book.

This, very briefly and roughly, is how Woolcock divides social capital research into three perspectives: 1. the communitarian view (all trust is good); 2. the pragmatic (or Putnamian) network view, according to which trust may have both positive and negative effects; and 3. the institutional view, in which institutional factors are associated with social factors.

We are somewhat dubious about drawing a direct link between theory and practice in the context of social capital. As far as we can tell the theoretical debate on social capital has only just begun to unfold and gather momentum. The question that now needs to be asked is whether this theoretical debate should be waged separately at different regional levels and in country comparisons; we also need to address the question of how small regional units should be treated in analyses. Moreover, there will no doubt be considerable differences between analyses of developing countries and advanced industrial countries. Likewise, different theoretical apparatus will be needed at different regional levels.

3. The situation in neighbouring countries

It may be easier to do empirical regional research of social capital in a country like Italy where regional differences are big. The real test of Putnam's ideas comes in countries with minor regional differences, and in this context the Nordic countries are a nightmare for the regional scientist.

In Finland Putnam's book did not arouse special interest among regional scientists at the time of publication. Interest in his ideas is a recent development.

Swedish scholars working in regional studies were very impressed by Putnam's book. He was invited on a few occasions to deliver lectures in Sweden, his book was translated into Swedish (Putnam 1996), and in general his ideas have enjoyed much wider currency in Sweden than in Finland. Moreover, Putnam's colleague Leonardi is still on the research board at the Swedish Institute for Regional Research. The Putnam boom probably has to do with the fact that traditional hard indicators used to enjoy a clear position of dominance in Sweden, and Putnam paved the way for a revolution in softer methods.

Against this background it is unfortunate that no-one in Sweden has published any regional research comparable to our experiment. Economic researchers in Sweden have also been less keen to adopt Putnam's ideas or terms, despite a strong tradition there of similar work in social economics (e.g. work on the impacts of equal incomes distribution on GDP growth, etc.).

As far as Russian regions are concerned a distinction needs to be made between the debate waged among Western scholars and that among Russian colleagues. Russian regions constitute a very promising object of study for social capital research because of their clear cultural differences. On the other hand, the interest there has been confined to political scientists. Nonetheless, Putnam's book has also been translated into Russian (Harter 1997, Petro 1998, 1999, Lewin 1996).

In Finland research into social capital (using this concept) has so far been conducted exclusively at the national level, even though the project's main proponent in the country (Jouko Kajanoja) has a background in regional studies. Also, the only empirical study so far (Hjerpe 1998) compares different countries. So why then has the empirical regional aspect of social capital received so little attention in Finland and in the other Nordic countries? We are not able to answer this question now at the present time. (It should be pointed out though that in Finland quite a lot of work has been done at the municipal level in Putnam's footsteps; the only difference is that these efforts have not been linked up with indicators of the total economy).

So is the act we are trying to follow quite simply beyond our capabilities; or is the lack of empirical work due to problems with the construction of adequate empirical indicators, i.e. to the absence in this effort of statistical professionals?

4. Migration

One of the biggest problems in the measurement of regional as opposed to country variation in social capital is presented by migration. Migration changes the social cohesion of both the source and the target region and at the same time affects their social capital. There is no way of telling in advance if and when migration will increase or reduce social cohesion and capital. The people moving out may be among the most active strata in the source region, the hub of its social life. Those remaining may feel depressed and apathetic if the migration away is of a permanent nature and if those moving out are indeed the most active people. In the target area the new arrivals will not necessarily continue in their active role, or they may pick up from where they left off; much depends on how the energy of the people moving in is harnessed to their new environment. In the worst case both the source and the target area will see a loss of social capital. Putnam (1995, 236) says that migrants adapt to the new environment quite rapidly, at least in Italy, and that in this sense social capital is not dependent on the individual's personal characteristics. In the Finnish case we would be inclined to take a somewhat more cautious position.

5. GDP calculation and social capital

If GDP is derived from incomes, it is calculated as the aggregate of wages, salaries, profits, interests etc., allowing for the consumption of fixed capital or depreciation. The present formula for calculating GDP is based on fixed capital alone and omits all other forms of capital. Normally, of course, investment in material or immaterial fixed capital is recorded in GDP or value added in the amount of depreciation. In contrast, investment in education and social capital does not increase the value of production or GDP in the present application (with the obvious exception of wages and salaries), but merely represents intermediate consumption.

The more rapid the (physical or mental) consumption of capital, the greater will be its impact on added value in different industries (and hence on GDP) in the present method of calculating GDP. Education expenditure is directly reflected in value added through wage expenses, but not as an investment expenditure. Its multiplicative effects are not of course included in the calculation. Education is not consumed nor does it run out, though it may of course become outdated and unproductive. It is very difficult to measure its effects directly. The same applies to the effects of social capital, which are impossible to isolate from GDP, but we can try to assess them using dependency calculations with different indicators. On the other hand, even if we did have the data we needed to calculate GPI, it would still be extremely difficult to measure the impacts of an increase in social capital on the standard of living.

6. SAM and GPI

SAM does not provide an immediate solution to the measurement of social capital, but it certainly marks an improvement on GDP in that it incorporates income distribution as well as the education level of the workforce. SAM is an open system that allows for

the incorporation of other variables as well. As far as growth research is concerned its main problem is that it is a static equilibrium model and therefore suitable for short-term analyses only. It is also extremely laborious to set up.

GPI starts out from the value of private consumption as specified in the national accounts of each country. Values are then deducted and added each year for indicators describing the state of the environment, changes in income distribution, household production, leisure value, crime, etc.

7. Growth model applied by Pelkonen and Ylonen

Pelkonen and Ylonen applied the same growth model as us when they used three input variables - labour force, investment and educational level - to explain the development of output, i.e. fixed-price regional GDP at the provincial level in 1960-95 and at the district level in 1988-95 in ten industries. So far they have published two reports. In some industries regional level of education produced relatively high coefficients of determination. As far as we can establish educational level is not necessarily bound to the amount of social capital, whereas other forms of human capital probably are dependent on social capital. We intend to look into this problem later on at a regional level.

8. Can there be too much or too little social capital?

There are at least three avenues through which social capital exerts its influence on economic growth:

- If social trust increases, then both domestic and foreign investors will also show greater confidence in the region's economic prospects.
- Increased trust will also facilitate innovation and information exchange at different levels and in different networks, which in turn will strengthen the economy. (Asheim 1999)
- Trust serves to increase social cohesion; the mechanism works roughly like this: In a football club or other such organisation people learn mutual trust and cooperation, regardless of their social backgrounds. This may increase their trust in other people and also in other communities and in this way reduce asocial behaviour. If people have trust in different parts of society, they will also be prepared to work hard and even to accept minor problems and shortcomings in society. All this may encourage greater optimism in their labour input.

The effects of civil society, then, are reflected in different networks teaching people to transfer their skills of cooperation to other spheres of life as well, e.g. to working life (learning by doing).

However, there is good reason to ask whether there really is no feasible limit to network cohesion. Perhaps a network should not be so close and tight that it leaves no room for other contacts; surely in this case there is an excess of social capital at this level and too little capital overall. This should be reflected in at least some indicators.

Other examples of excessive social capital are provided by strong and weak bonds, which are also mentioned by Putnam. Strong bonds occur among family members, while weak bonds are based on leisure interests, world-views, etc.; fraternal networks belong in this same category of bonds, which add to the social capital of a certain circle but reduce it at the level of society as a whole. There has been quite extensive research internationally into the weakness vs. strength of classical ethnic relations. At a certain level of activity it benefits people within the same family or with the same ethnic background to keep in touch, but at a higher level of economic activity these social bonds soon become a burden because they cannot be transcended.

Strong and weak bonds or ties are not the only terms employed in this context; in Russian sources, for instance, one often sees the terms long bonds and short bonds (Levin 1996).

In a work organisation the growth of trust may lead to the removal of a control-based system and to the focus of attention turning to other aspects, the assumption being that this will help to increase efficiency and production. If there is excessive growth of trust

within a certain part of the network relative to the whole network, say in a highly hierarchic work organisation, then the growth of social capital here will adversely affect output.

The level of critical activity in civil society will also influence the amount of social capital. On one hand this kind of activity may indicate mistrust towards other groups of people or towards society as a whole; on the other hand it may signal a real sense of confidence that society can withstand criticism and indeed needs it. If there is no real drive to change society, this activity may be a sign of ostensible trust, i.e. the kind of trust that prevents effective operation of the community. In interview surveys this may give rise to false notions; the interviewee may indicate a sense of trust, yet in practice take no part at all in developing society, i.e. show no trust at all.

Does political trust, then, differ from other social capital? After all, excessive activity in a certain individual domain may adversely affect the overall result. For instance, if people are obsessively involved in political activity, they may not have the energy to do anything else. Moreover, a very narrow-minded political or religious orientation may prevent those involved from exploring new dimensions or new links with other areas of life, activity or work. In this sense the same applies to social capital as to any other type of capital: it is easy to have too much or too little of it. The right amount has to be determined separately for each case.

Overall, however, the concept of social capital does not lend itself very well to the analysis of political ties; it fits in better with horizontal rather than vertical relations and ties in politics. It does not provide a very convenient tool for the treatment of class conflicts or indeed the structures of the state and society in general. This line of inquiry needs an entirely different conceptual and theoretical toolbox.

9. Interview material

For the purposes of our study we reviewed some cross-sectional interview materials containing relevant items on social trust, but were unable to test them with our model. For instance, the latest Kuntasuomi 2004 survey includes a set of items on social alienation. From this source we extracted some data on the provincial level. There appear to be no major differences at the provincial level in degrees of alienation. Alienation attitudes show no correlation with economic development, with the possible exception of the lowest province on the economic ladder. For instance, in the province of Central Finland alienation was at a lower level than anywhere else, which means that social trust should be at its highest here. However, in terms of economic production this region has not shown particularly impressive results. Alienation was highest in the province of North Karelia, which has consistently ranked among the poorest economic performers throughout the period under review (Pekola-Sjöblom 1998).

10. Organisational capital

The doctoral thesis by Siisiainen (1986) is a theoretical piece of work which very much concentrates on the political aspect. According to Siisiäinen the relationship between citizens' organisations and the state is an exchange relation in which the former take over part of the state's functions and lighten the load on the welfare state. In another context, however, he uses the concept of organisational capital to describe the social meaning of organisational activity (Siisiainen 1988). Organisational capital, Siisiäinen says, can be defined as consisting of 'those societal resources that are produced by the organisation through its collective efforts, that are given to individual subjects by virtue of their membership of the organisation, and that are based on the organisation's social networks and relations of interaction that reproduce those networks.'

Siisiäinen's concept comes quite close to that of social capital, although he derives it from Bourdieu. The main difference is perhaps that the theory of social capital (if indeed it is legitimate to speak of a theory) stresses the democratic experience of trust that organisations give to their individual members, whereas Siisiäinen attaches more importance to the role of organisations as social agents.

Cultural capital, as defined by Bourdieu, is of course strictly tied to social class and in a sense comparable to what education is to individuals: it is a public commodity possessed by the individual. The theory of social capital, in contrast, denies or at least ignores class and conflict theory, as well as politics. In this sense the theory of social capital could even be described as naively adapting to the interests of whichever groups happen to predominate in society at each moment in time.

Siisiäinen has also done some work to explore the regional structure and development of organisations in Finland. However, the data do not provide a sufficiently solid basis for statistical comparison. In a Nordic comparison the number of organisations and participation in them are at fairly modest levels in Finland, but compared to the rest of Europe the figures are in fact quite high. It is also important to note that civic activity increasingly takes place outside of official organisations. It is difficult to say whether this has any implications with respect to social capital in comparison with other countries.

The database on all registered civic organisations in Finland could be used to measure, for instance, the number per capita. However, it would not be possible on this basis to isolate active organisations from non-active ones; we therefore decided not to use the regional data from this database.

One difficulty in evaluating participation in organisations from the social capital perspective relates to their internal democracy, activity and hierarchy. We tend to think that the more hierarchic the organisation, the less social capital it will be able to offer. Simply looking at the numerical data will not reveal whether organisations in certain areas are active and possibly under authoritarian leadership. In the latter case it is unlikely they will generate increased trust. A sports club, for instance, may be authoritarian or democratic by internal nature. However, we have no evidence on these issues and therefore have confined ourselves to numerical data. Putnam addresses this same issue and insists that if southern Italian sports organisations are more hierarchic by nature than in the north, then that merely lends further support to his results on social capital that are based exclusively on numbers (Putnam 1993, 245).

11. Networks and company operations

Both network research and how social capital operates in companies are areas in which we feel the concept of social capital has real development potential. Unfortunately, we were unable to find a single indicator describing the operation of province-level networks or company operations that we could have tested in our model. We therefore had to exclude them from our discussion.

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Appendix 1. Statistical parameters

1. GDP

All GDP figures were converted into 1990 prices using the country GDP price index. Regional GDP figures were initially drawn from the statistics of old regional accounts. The figures for 1970 and 1980 were taken as such and in deflated form, and the realignment of municipalities between provinces has been taken into account at the 1990 level (i.e. using the 1990 municipality-level GDP share). The figures for 1975 were calculated as extrapolations of the 1973 and 1976 regional accounts figures through country-wide industry comparisons and municipality changes according to the 1990 levels. The figures for 1985 were calculated as means of the 1984 and 1986 regional accounts statistics relative to industry development; municipality changes were taken into account in the same way as in 1990. The 1990 statistics were taken as such. The 1995 GDP figures were calculated entirely on the basis of the municipal data.

2. The population and labour force data were derived from the population and employment statistics.
3. Investment data were calculated for 1970-1985 using figures from the old regional accounts, in the same way as for GDP. The data for 1990 and 1995 were calculated separately from unpublished investment files: Aku Alanen, *Seutukunnittaiset investoinnit toimialoittain 1988-1995*. Unpublished manuscript. Tilastokeskus 1998.
4. Education data were calculated from Statistics Finland's education database. Two different classifications were used: 1) a sliding classification comprising all levels, and 2) a three-tiered classification between lower, intermediate, and higher education.
5. Crime figures were derived from Statistics Finland's annual crime statistics. A distinction was made between property offences, traffic violations and other criminal offences. The total figures were then divided by each province's population.
6. Suicide figures were derived from Statistics Finland's cause-of-death statistics. The indicator for suicides is the number of suicides committed by males aged 10 or over relative to the corresponding total population.
7. The figures for participation in associations were derived from Statistics Finland's leisure surveys and time use studies. For the level of major regions the figures are published in: *Vapaa-aika numeroina 4; Kulttuuri ja viestintä: 6 / 1993* Tilastokeskus *Ajankäyttötutkimus 1987-1988*.
8. Turnout figures for municipal elections were derived directly from the Statistical Yearbook. The same source was used to link electoral districts to provinces.
9. Data on expenditure in municipal operational economies were derived from municipal economic statistics for 1970-1995. The sums were divided by the population numbers for each province and indices formed on that basis.

Appendix 2. Regression results**(Figures in bold are significant at the 10 % level)****Behaviour indicators**

Electoral turnout

Per capita

	1970-1990	1970-1975	1975-1980	1975-1980
CONSTANT	.1793	.4635	.7107	.6122
GDP	-.0119	-.0270	-.0479	-.0424
ELECT72	-.28E-3	-.0019	-.0021	
ELECT76				-.0015
R-Squared	.5316	.6031	.5182	.4261

	1980-1985	1985-1990	1985-1990	1990-1995	1990-1995
CONSTANT	-.2096	.1126	.1718	-.0332	-.0535
GDP	.0174	-.0058	-.0097	-.0013	-.0017
ELECT80	.57E-3				
ELECT84		-.18E-3			
ELECT88			-.42E-3	.64E-3	
ELECT92					.99E-3
R-Squared	.1096	.0161	.0499	.0792	.1330

Per employed person

	1970-1990	1970-1975	1975-1980	1975-1980
CONSTANT	.3799	.7549	.9224	.8859
GDP	-.0306	-.0534	-.0747	-.0723
ELECT72	.42E-4	-.0015	-.27E-3	
ELECT76				-.16E-3
R-Squared	.6813	.5419	.7477	.7394

	1980-1985	1985-1990	1985-1990	1990-1995	1990-1995
CONSTANT	-.8340	.9227	1.002	.6404	.5129
GDP	.0712	-.0752	-.0801	-.0480	-.0423
ELECT80	.19E-3				
ELECT84		.23E-3			
ELECT88			-.53E-4	-.25E-3	
ELECT92					.57E-3
R-Squared	.4559	.5115	.5050	.0408	.0554

Suicides

Per capita

	1970-1990	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995
CONSTANT	.1714	.4388	.2409	-.1763	-.1482	.1392
GDP	-.0133	-.0364	-.0194	.0166	.0145	-.0122
SUICIDE	.0031	-.0394	.0120	.0405	.0409	-.0054
R-Squared	.4184	.2661	.1250	.1833	.2893	.0385

Per employed person

	1970-1990	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995
CONSTANT	3798	.6952	.8637	-.8253	.7888	.6909
GDP	-.0304	-.0558	-.0711	.0712	-.0634	-.0552
SUICIDE	.0030	-.0562	-.0077	.0133	.0198	.0348
R-Squared	.6816	.3430	.7416	.4671	.5425	.1238

Association of total participation

	1980-1985	1990-1995
CONSTANT	-.2300	.1749
GDP	.0204	-.0133
PARTICIPATION	.0590	-.0527
R-Squared	.2847	.0969

Membership of trade unions

	1980-1985	1990-1995
CONSTANT	-.0619	.1299
GDP	.0066	-.0116
TRADE UNION	.0723	-.0072
R-Squared	.2470	.0355

Political activity

	1980-1985	1990-1995
CONSTANT	-.2844	-.2388
GDP	.0272	.0195
POLITICAL	.1507	.3505
R-Squared	.0763	.2753

Membership of sports organisations

	1980-1985	1990-1995
CONSTANT	-.2663	.1618
GDP	.0251	-.0142
SPORT	.1222	-.0261
R-Squared	.4149	.0502

Membership of religious associations

	1980-1985	1990-1995
CONSTANT	.0072	.0677
GDP	.0019	-.0068
RELIGIOUS	-.0177	.0870
R-Squared	.0149	.0611

Membership of cultural organisations

	1980-1985	1990-1995
CONSTANT	-.0244	.2456
GDP	.0040	-.0212
CULTURAL	.2685	-.3345
R-Squared	.3452	.1707

Membership of leisure organisations

	1980-1985	1990-1995
CONSTANT	-.4243	.1488
GDP	.0417	-.0128
LEISURE	-.0452	-.0286
R-Squared	.5946	.0453

Time-use

	1985-1990	1990-1995
CONSTANT	.0376	.1296
GDP	.28E-3	-.0119
TIME-USE	-.0014	.50E-3
R-Squared	.0900	.0406

Property offences

	1970-1990	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995
CONSTANT	.2407	.8176	-.1790	.2449	.1532	-.0168
GDP	-.0201	-.0762	.0244	-.0244	-.0114	.0021
PROPERTY	.2732	1.599	-1.826	1.669	.2111	-.1656
R-Squared	.6629	.8448	.5115	.7742	.0594	.0725

Traffic violations

	1970-1990	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995
CONSTANT	.1995	.8297	.4389	-.2874	.1300	.0338
GDP	-.0161	-.0787	-.0329	.0251	-.0080	-.0043
TRAFFIC	.0716	1.099	-.7489	.8507	-.1056	.1722
R-Squared	.4341	.5562	.4974	.3229	.0306	.0629

All crimes

	1970-1990	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995
CONSTANT	.2409	.9713	.1277	-.1679	.0722	.1174
GDP	-.0202	-.0924	-.0034	.0122	-.0037	-.0106
CRIME	.0853	.6903	-.5078	.6288	.0276	-.0021
R-Squared	.5245	.7483	.7253	.7436	.0135	.0350

Input indicators

Expenditure on public libraries

	1970-1990	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995
CONSTANT	.2128	.5788	.3984	-.0168	.0886	.1265
GDP	-.0179	-.0546	-.0363	.0053	-.0054	-.0116
LIBRARIES	.91E-3	.0036	.0010	-.19E-3	.32E-4	.98E-5
R-Squared	.6170	.4564	.3246	.0739	.0291	.0372

Expenditure on adult education centres and workers' institutes

	1970-1990	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995
CONSTANT	.1197	.1259	.1563	-.0282	.0822	.0723
GDP	-.0087	-.0108	-.0138	.0065	-.0042	-.0073
ADULT ED.	.78E-3	.0043	.0013	-.36E-3	-.20E-4	.52E-4
R-Squared	.6485	.7478	.6960	.3158	.0131	.0660

Expenditure on parks and other similar areas

	1970-1990	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995
CONSTANT	.1840	.5289	.2111	-.5005	.0946	.0093
GDP	-.0145	-.0476	-.0159	.0490	-.0056	-.65E-3
PARKS	.17E-3	.0016	-.19E-3	-.38E-3	.24E-4	-.35E-4
R-Squared	.4637	.5637	.1158	.1008	.0125	.0603

Expenditure on sports and outdoor recreation

	1970-1990	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995
CONSTANT	.2142	.6224	.8225	.2421	.1106	.0782
GDP	-.0175	-.0566	-.0747	-.0217	-.0078	-.0052
OUTDOOR	.30E-3	.0015	.72E-3	.23E-3	.45E-4	-.61E-4
R-Squared	.6351	.6090	.2421	.1865	.0497	.0783

Social Capital and Reduction of Poverty

Timo Voipio

Introduction

The emergence of the concept of "social capital" during the 1990s has been linked with the search for "sustainable growth" in the perspective of our children's lifetime. My own point of departure is grave concern over the unsustainability of global growth trends. I have tormenting suspicions concerning the realism of assumptions about future growth oriented toward material goods and (even ecologically-based) modernisation. On the other hand, I have a strong belief in the ability of people and society to adjust, when necessary, for the pursuit of a better future. In relation to social capital, I hold to the belief that norms which foster the ideals of equality and solidarity will make the inevitable adjustments easier for us all, and that co-operation and networking can foster groundbreaking innovations.

The topics in my title, "social capital", "poverty" and "poverty reduction", are all concepts that are given different definitions and meanings according to the context. For the sake of clarity, it is perhaps worthwhile specifying what I mean by these concepts in this paper.

Social capital

Perhaps the most striking dividing line for interpretations of the concept of social capital runs between those of Bourdieu and Putnam. But the main thing is not whose name is associated with these interpretations. What is essential to grasp is that in the sociological writings of Bourdieu¹ and his school of thought, social (or cultural) capital is generally the resource of an individual, while for Putnam,² Serageldin³ and many others - including the

¹ Bourdieu (1984, 1988).

² Putnam (1993, 1995).

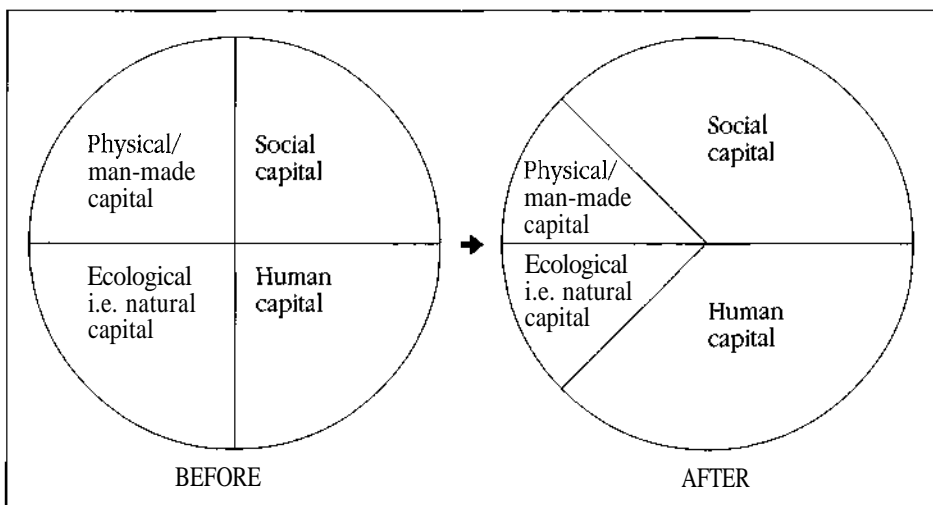
³ Serageldin (1996, 1998).

organisers of this seminar⁴ and myself⁵ - social capital is regarded primarily as a resource of society.⁶

My active interest in social capital was awakened by Sustainability and the Wealth of Nations, written a few years ago by Ismail Serageldin of the World Bank.⁷ I have perhaps played a role in promoting the use of this concept, as it was discussed in the National Finnish Commission for Sustainable Development and included in the Council of State's Report on the Future⁸, and subsequently in other documents, e.g. Finland's Policy on Relations with Developing Countries⁹.

As I mentioned, I am not convinced of the possibility for infinite growth in a finite world. I am convinced that as long as generations with personal experience of the post-war period of growth remain in power, we will not be able to have any serious public debate about a future without growth. However, it is possible to ponder what forms of capital have potential for growth. We all know that even physical capital can grow only in a limited fashion at best. And the limits of ecological capital cannot be stretched forever. On the other hand, we know of no limits to growth in human and social capital.

Figure 1. Sustainable Growth Potential of Selected Capital Types¹⁰



⁴ Kajanoja (1997); Kajanoja and Simpura (1998).

⁵ Voipio (1998a, 1999b); Voipio and Hoebink (1999); Cox, Healey and Voipio (1999).

⁶ According to Coleman this distinction is not clear. He thinks social capital can be a resource of either an individual or society/organization.

⁷ Serageldin (1996).

⁸ Valtioneuvosto (1997).

⁹ Ulkoasiainministeriö (1998).

¹⁰ Serageldin (1996).

According to Serageldin's more recent definition¹¹ the social capital of a society consists of institutions, relationships, attitudes and values that steer the interaction of people and foster economic and social development. Social capital is more than the sum of society's institutions: it is "the glue that binds them together".

My way of thinking differs from those of Putnam and Serageldin and most other writers on this topic, as I see humankind as a whole, as a "global society", for which social capital can be a vital resource and its lack a significant problem.

Reduction of poverty

Reduction of poverty is commonly claimed as the prime aim of the World Bank, the Department for International Development Cooperation of Finland's Ministry of Foreign Affairs, and almost all other international development financial institutions and agencies. This is highlighted in Table 1, which presents the main development policy goals of the government of Finland, the EU, the World Bank, and OECD's Development Assistance Committee (DAC), as well as those defined by the UN Conference on Social Development in Copenhagen 1995.

Table 1. Goals of International Development Assistance in 1990–2000

UN/Soc.dev./ Copenhagen95	Finland	EU	World Bank	OECD-DAC International Development Targets
1) Poverty elimination 2) Reduction of unemployment 3) Prevention of social exclusion	1) Poverty reduction 2) Environment protection 3) Equality + democracy + human rights	1) Sustainable development 2) Global economic integration 3) Poverty prevention	1) Poverty reduction 2) Poverty reduction 3) Poverty reduction	1) Extreme poverty -50% by 2015 2) Primary education for all (girls!) 2005 3) Infant, child, and maternal mortality + reproductive health services by 2015 4) Environmental sustainability strategies in all countries

I have some sympathy towards the critical (and admittedly too cynical) statements of some academic and NGO commentators, for whom one major barrier to achieving the target of universal poverty reduction is that in terms of institutional continuity it is important for aid organisations that this goal never be achieved - i.e. that the work of the aid agencies will never end. The

¹¹ Serageldin (1998).

seed of truth in this otherwise exaggerated view has to be taken seriously by all aid agencies. I am nevertheless a reformist: I think it is important - and possible - for national development assistance organisations to change and overhaul their operations so as to maximise the positive impact of their resources and activities on poverty. In the rest of this article I attempt to assess the trends and effects of development co-operation geared toward reduction of poverty. This has been my main topic of research for the last three years.¹² Poverty reduction requires the analysis and systematic elimination of multidimensional factors causing isolation. Social capital and the lack thereof are useful heuristic instruments in this work.

Management of poverty, emergence of social sciences and social contracts as social capital

According to Giovanna Procacci¹³ the elevation of poverty into a socially important Poverty Question (or Social Question) in France in the revolutionary period 1789 to 1848 helped to shape the emergence of the social sciences in their current form. Before the 1789 revolution the term "poverty" was absent from all debate on social issues. There were only "beggars", who were beyond the scope of universal social rights as lying within the realm of police guardianship.

In 1848 the French revolutionary movement demanded the right to work for the proletariat. The rebels maintained that society was in debt to the poor and that the time had come to repay this debt. However, the liberal state ideology did not approve of the idea of society's debt to the poor. It did not want to burden the financial system with the poverty issue. However, those in power could not ignore the demands of the masses for redistribution of society's wealth and welfare. The rebellion forced the ruling class to search for new ways to manage the poverty problem peacefully. Social scientists such as Auguste Comte demanded the even more drastic alternative of a "philanthropic" or "positive" poverty policy, based not on rights but on morals. He also coined the term "collective good", which could be achieved through a "Social Contract". The state would recognise the poor as rights-bearing citizens, but these poor citizens would have to recognise that their citizenship involved both rights and obligations.

In order to ensure social harmony and the continuation of the status quo, Europe's liberal governments approved rather considerable changes in the "rules of the game" of society. By changing laws and administrative practices the poor gained the right to form trade unions, the right to send their children to school and - above all - the right to vote (although women did not gain this right until the 1900s).

¹² Voipio (1997a, b; 1998a,b,c, d; 1999a, b)

¹³ Procacci (1989, 1997).

It is very interesting to compare the European debate of the last century to the current debate on global poverty. What is the role of the social sciences in managing poverty in the light of philanthropic social contracts? We can consider the reduction of poverty as either:

- (a) an internal challenge of Northern societies, generally referred to as building the "welfare state" (or more recently its "crisis");
 - (b) an internal challenge of Southern societies, generally referred to as the "development" problem (and recently also the development "crisis");
 - (c) questions related to relations between the rich North and the poor South - and especially their inequality, generally referred to as "global policies".
- (a) North: Globalisation and regional economic integration, for example in the EU region, have changed the established social contracts of affluent nations, e.g. Finland, in a significant manner. The social capital that prevails in Finland's exceptionally homogeneous population has over the years been institutionalised into strongly equality-oriented economic policies, income distribution and taxation policies, and regional policies, as well as social and cultural policies administered largely by autonomous municipalities. These policies and the mutual relations between local and central governments in Finland clearly differ from those in the EU core countries (e.g. France and Germany) exemplified by job-related "social partnerships"¹⁴, and from the civic society of Anglo-American small towns, and from social capital embodied in the "third sector"¹⁵, a model which we are perhaps too eager to emulate in Finland nowadays.
- (b) South: The national elites of the poor countries of the world today, such as Tanzania and Nepal, need national social contracts in order to be able to preserve the status quo, or at least to control the pace and direction of social change. To what extent and in which ways do they need development assistance from abroad in order to serve their ends? Development co-operation has been geared toward reducing poverty primarily via individual projects. Only in recent years has the interest of development planners focused on the building blocks of social contracts such as legislation, forms and practices of government, and other institutional questions. Have aid organisations and development researchers side-stepped questions related to equality and democratic shortcomings on purpose, or unconsciously?
- (c) Global: To what extent does the unpredictable threat of Southern poor nations "force" the rich states of the world and large corporations to search for a new foundation for the "social contract of the global community", which would allow the "Global South" to relax its critical stance towards the rationale of global economic organisations, e.g. in negotiations within the UN and the WTO, or in international environmental

¹⁴ Cf. e.g. Heikkilä and Kautto (1997).

¹⁵ Cf. e.g. Anttonen (1998).

agreements.¹⁶ How can the developing countries be persuaded to accept that the rules of the game should change, when the basic trend - liberalisation and growth - has been imposed on them by the world's rich nations? How willing are the rich countries and large corporations to accept fairly peaceful yet significant changes in the ground-rules of the global economy in order to retain their control of the global community? What is the role of development assistance aimed at poverty reduction in this "global management"? What other international economic, tax or social policy means are available? What about the role of development research or global social policy research?

In the rest of this chapter I analyse the potentials, limitations and practical resources for reducing poverty on all these three levels: North, South as well as the global relations between the North and South. The role of social capital is different on all these levels.

The development aid given by Finland and other industrialised countries is the main object of my own research, so I concentrate on this here. It is nevertheless clear that this is insufficient to provide a complete picture.

As regards global relationships, the kind of social capital required and/or created in the normative work of UN organisations and conferences should also be evaluated¹⁷. At the same time one should analyse the global financial architecture that the G7 group, the Davos economic forum, Club of Paris, OECD, IMF and World Bank offer on a take-it-or-leave-it principle to the poor national economies of the world. The WTO-level negotiations on elimination of international trade barriers are proceeding slowly because the poor countries do not believe the assurances of the major industrialised countries about the benefits of the liberalisation currently proceeding on many fronts.¹⁸

The negotiating power of the poor countries is currently stronger in international environmental negotiations (on climate change, biodiversity and desertification) than in any other forum, since the poor know that the rich, too, have much to lose in the case of global environmental catastrophe.

When considering the Southern and Northern countries it should be remembered that significant country-specific differences exist which make generalisations problematic. Studies on social capital should distinguish whether the object of research is a country, a municipality, a neighbourhood or a family. The social capital in my own family and neighbourhood is different from that in my home town of Riihimäki, where social capital is built and visible in a very different way compared to large cities such as Helsinki, or to the Finnish national level, not to mention the EU. World Bank researchers have done extensive work to assess the characteristics, sources,

¹⁶ A general but rather thorough picture of these issues is available in Voipio (1999c).

¹⁷ For more about the Global Agenda read e.g. Tan (1997).

¹⁸ Voipio (1999c).

dynamics and measurement of social capital on a local level.¹⁹ The World Bank's studies — as well as the widely cited work of Robert Putnam — nevertheless stem largely from North American life experience, which in the spirit of communitarism glorifies the "civic society", consisting of parent-teacher associations, churches, Lions clubs and bowling teams. North-American commentators seldom seem to trust that social interaction, security, predictability and other elements of social capital could also flourish and bloom in elected and tax-financed state and municipal institutions, whereas in countries such as Finland, for instance, such a conviction is widely shared and supported by collective life experiences.

Reduction of poverty and social capital in poor developing countries

The new Finnish government policy on relations with developing countries²⁰ has been commended by some international experts²¹ for the way it views the reduction of poverty as a challenge for a coherent, multidimensional and human-rights based developing country policy. Finland puts special emphasis on co-operation with the least developed countries and the poorest population groups in order to help these countries and groups avoid becoming excluded from the globalising world economy.

The Finnish government - in practice the Ministry of Foreign Affairs - has thus addressed the reduction of poverty from the standpoints of (a) individuals, (b) families (households), (c) regions, (d) classes and social groups, (e) gender, (f) governments, (g) ethnic groups, as well as (h) the collectively poor "Global South". This is exemplary by international comparison.

The portfolio of the Minister of Development Co-operation also contains important messages for all other ministers, and for Finnish society as a whole. The challenge of the Ministry of Foreign Affairs is not only to look out from Finland to the world beyond, but also to turn the focus on Finnish society, and especially other ministries. I look forward to the day when the Ministry of Foreign Affairs takes an active stand on certain matters being dealt with in other Finnish ministries - and in the European Commission - by including in its statements views demonstrating that Finland's (and the EU's) decisions are also credible from the standpoint of poor people in developing countries. It is easy to think of issues relating to energy, transport, agriculture and immigration policy, for example, where Finland's own domestic and EU-level decisions significantly affect the potentials of poor countries to realise their own development aims.

I now move on from these issues related to Finland and global perspectives, to internal questions regarding the societies of poor developing countries,

¹⁹ Cf. <http://www.worldbank.org/poverty/scapital/index.htm>

²⁰ Ulkoasiainministeriö (1998).

²¹ Cox et al. (1999b).

and to the significance of social capital as a resource on the national, municipal and neighbourhood level.

The new poverty strategy of the World Bank

For me and many other development researchers, civil servants and NGO lobbies, the World Bank has for decades been perhaps a favourite target of criticism, the "Big Bad Wolf", about which it is always easy to find something wrong. However, it must be admitted that the World Bank has continuously been the "intellectual leader", whose information, analysis and policy stances have ultimately been followed by all international aid organisations - and also by critics like myself. It must also be said that during the past four years under the leadership of Jim Wolfensohn the World Bank has sought to correct mistakes in its own thinking and operative culture more systematically than any other developing organisation I know of. The recent organisational reform of the Finnish Ministry for Foreign Affairs pales by comparison with the World Bank's internal "structural adjustment program", i.e. the "Strategic Compact".

The World Bank is currently preparing a new poverty report called the World Development Report 2000/1 (WDR).²² The Bank has published a corresponding poverty bible twice before, in 1980 and 1990. In both cases almost all international donors, i.e. national development aid organisations, accepted and copied the World Bank's poverty reduction strategy almost verbatim in their own strategies. Against this background, it is interesting and significant to analyse the kind of a strategy the World Bank intends to employ to reduce poverty in the 21st Century.

This time the World Bank is preparing its poverty strategy with maximum participation. It has published the framework of its poverty bible and initiated a moderated international e-mail discussion, which at least gives the impression that any poor or disadvantaged world citizen can affect the content of the next poverty bible with his or her opinions, if able to gain access to the Internet and e-mail.²³

My own view is that if the World Bank officially sanctions the main thrust of the task force preparing the WDR-2000/1, the report will indeed be 'revolutionary'. The main difference compared to the World Bank's 1990 poverty strategy is as follows:

The WRD-1990 presented a three-pronged strategy for the reduction of poverty (cf. Table 2). The new WDR-2000/1 presents a three- or, in fact, a four-pronged poverty strategy, but the prongs are now appreciably different and substantially more "political". I think it is significant that an organisation with ten thousand economists has dropped "economic growth" as one of the

²² See <http://www.worldbank.org/poverty/wdrpoverty>

²³ This discussion can be followed at the website <http://www.worldbank.org/devforum/>. To participate in the discussion (and to follow the discussion of others) send a message to the moderator of the discussion at the address: majordomo@worldbank.org. Leave the subject field empty, but write in the message field the following text: subscribe WDR2001.

main pillars of its strategy, and replaced it with "empowerment" as the first pillar and "security" as the second. The first and second prongs are based on the realistic vision that it is possible to increase social capital even in the poorest societies, and that such matters as participation, social cohesion and livelihood risk management are prerequisites even for pro-poor material economic growth. The authors of the WDR-2000/1 say that the new strategy has three prongs, but I see it as having four: in addition to the three prongs there is a new "dimension", which I think the World Bank's approach has been lacking so far: a "global structural dimension".

Table 2. Contrasting World Bank Strategies for Poverty Reduction in 1990 and 2000

1990	2000
1) Broad-based economic growth (employment)	1. EMPOWERMENT (a) Voice and participation (b) (In)equality, social cohesion and social capital
2) Investing in people (education, health)	2. SECURITY (a) Risk management, social protection, social safety nets (b) National crisis management
3) Social safety nets	3. OPPORTUNITIES (a) Making resources available (b) Pro-poor policy reforms
	4. INTERNATIONAL DIMENSION (a) Poverty and global forces (technology, trade, capital movements, labour standards, environmental change and environmental standards) (b) Pro-poor development aid, debt relief, international taxation.

The more one thinks about this framework, the clearer it becomes that the poverty strategy of WDR-2000/1 is very different from that of WDR-1990. If all donors adopt the World Bank's new strategy as loyally as they adopted the ideas of the WDR-1990, we can now predict that international development co-operation will change greatly in the first decade of the 21st Century. I certainly hope so!

Development agencies of Western countries - "DAC donors"

The national development aid organisations of the western industrialised countries (OECD countries) have typically supported the World Bank in their poverty reduction strategies. Among the members of the Development Assistance Committee (DAC) of the OECD, there has nevertheless been a will to establish a constructive balance with the World Bank.

In 1996 the leaders of the OECD aid authorities and departments negotiated and approved the DAC donors' joint strategy for the 21st Century.

In their strategy paper "Shaping the 21st Century"²⁴ ('S21') the donors translated the main aspects of the UN Global Agenda (which emerged as a common understanding of the large-scale UN conferences of the 1990s) into measurable targets with deadlines that could be monitored from one year to the next. The first target set out in the International Development Targets of S21 is the reduction of the proportion of people living in extreme poverty by one half by the year 2015.

The time until 2015 is rather short. The members of the DAC and the key multilateral donors²⁶ participating in the activities of the DAC decided in 1998 to establish the DAC Informal Working Group on Poverty Reduction, the task

Table 3. International Development Targets (IDT) of OECD Countries²⁵

GOAL	DEFINITION
Economic well-being	
REDUCING EXTREME POVERTY	The proportion of people living in extreme poverty in developing countries should be reduced by at least one-half by 2015.
Social development	
UNIVERSAL PRIMARY EDUCATION	There should be universal primary education in all countries by 2015.
GENDER EQUALITY	Progress towards gender equality and the empowerment of women should be demonstrated by eliminating gender disparity in primary and secondary education by 2005.
INFANT AND CHILD MORTALITY	The death rates for infants and children under the age of five years should be reduced in each developing country by two-thirds from the 1990 level by 2015.
MATERNAL MORTALITY	The rate of maternal mortality should be reduced by three-fourths between 1990 and 2015.
REPRODUCTIVE HEALTH	Access should be available through the primary health-care system to reproductive health services for all individuals of appropriate ages, no later than the year 2015.
Environmental sustainability and regeneration	
ENVIRONMENTAL	There should be a current national strategy for sustainable development, in the process of implementation, in every country by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

²⁴ OECD-DAC (1996): 'Shaping the 21st Century: The Contribution of Development Cooperation.' This report is available in Finnish in the publication: 'Suunta 2000-luvulle' (Kesu).

²⁵ More information about international development targets and their monitoring can be seen at the OECD-DAC website <http://www.oecd.org/dac/indicators>.

²⁶ Australia, Belgium, Spain, European Commission, Netherlands, IMF, Ireland, United Kingdom, Italy, Austria, Japan, Canada, Luxembourg, World Bank, Norway, Portugal, France, Sweden, Germany, Finland, Switzerland, Denmark, UNDP, New Zealand, United States.

of which is to develop and negotiate guidelines for more efficient means to implement, co-ordinate and monitor development assistance geared toward actual reduction of poverty. At the same time it was recognised that a need exists for a common understanding of the meanings of "poverty" and "poverty reduction", and what kind of criteria and indicators of poverty reduction and increase should be used. The DAC gave the Informal Working Group on Poverty Reduction a term of two years, i.e. 1999-2000, to carry out this task.

The DAC Working Group on Poverty Reduction started its work by commissioning an international group of researchers coordinated by the British Overseas Development Institute (ODI) to carry out a "Scoping Study", in which I participated as the only Finnish researcher. I will briefly present some of the main observations - while stressing some of the more significant matters from the standpoint of social capital.

What kind of aid and to whom?

Even though all DAC donors affirm in interviews that they are committed to the International Development Targets (IDT), some aid organisations suggest that "poverty reduction" is the wrong goal. The differences in approach are related partly to language, and partly to social theory.

When considering EU co-operation, it is perhaps important to understand that especially for the French the reduction of poverty seems an inappropriate goal. The English term "poverty" is translated into French as "pauvreté", which brings to mind old-fashioned connotations (paupers, poor relief, etc). The French would prefer to replace "poverty reduction" with the more modern and political concept of "prevention of social exclusion" as the common global goal of development assistance.

Development aid interventions can be focused directly on assisting the poor, or indirectly on structural pro-poor changes in social structures and institutions. Each way can lead to strategic or practical approaches. The different approaches employed by DAC donors for poverty reduction are shown in Table 4.

Table 4. Practical and Strategic Approaches to Poverty Reduction in Targeted Development Aid with Direct and Indirect Focus of Interventions

	Direct	Indirect
Practical	E.g. catastrophe aid; basic health care; basic education; food aid; food-for-work; micro-credit -e.g. USA	E.g. sector aid: education, health, small farming, village roads, micro-credit - e.g. Denmark
Strategic	E.g. empowerment of the poor + women; micro-credit -e.g. Ireland	E.g. debt relief; good government, capacity building; education; micro-credit - e.g. Sweden

Allocating aid primarily to the worst off countries is one way to ensure that development assistance is poverty-oriented. The problem with this approach, however, is that it is not sufficiently sensitive to the internal differences and inequalities within countries. Even in the poorest countries aid can end up in the hands of the affluent elite. On the other hand, in middle-income - and even wealthy - countries the division of income can be so uneven that there are really poor persons living among the affluent.

The income or consumption level of the family (household) is a poverty criterion used by all DAC donors. Several donors think, however, that this "money-metric" indicator is not sufficient. Poverty is a multidimensional phenomenon which has to be assessed using other criteria as well, e.g.:

- access to basic social services (education, health care, drinking water, etc.)
- possibility to own, use and/or borrow the main factors of production, e.g. farm land, money
- social status, e.g. gender or ethnic background
- potential to influence political and administrative decision-making.

Many donors stress that poverty can be (a) absolute or relative; (b) transient or permanent. Germany has defined the main goal of its development aid as reduction of absolute poverty. Others, such as Switzerland and France, put more emphasis on relative poverty and on the social processes that regenerate poverty:

"Poverty and richness are the results of one and the same process - the unequal distribution of income. It is based on power, violence and structural violence." (Switzerland)

"Poverty is by definition a relative concept. Where inequality is great, there also is the greatest poverty." (France)

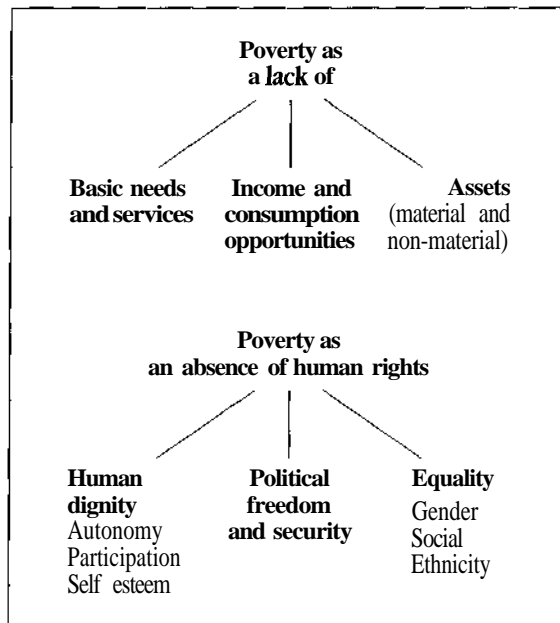
The World Bank defines poverty as an absolute phenomenon, but takes a more instrumental stance towards equality, which it regards as a useful factor supportive of economic growth and poverty reduction: evidence from World Bank and IMF-funded research indicates that poverty reduction is easier and more successful in countries where inequality is less pronounced. The UNDP stresses that poverty is not a state of affairs, but a process, where structural factors prevent people from making choices which allow them to realise their full potential as persons.

What is poverty?

A strong and clear - and coherent - concept would be the best basis for co-operation of donors in reducing poverty. Few DAC donors have defined their concept of poverty clearly (in written form). Currently, the poverty concepts of all donors appear to be multidimensional: this means that low monetary income - and consumption - is only one form of poverty. Other forms may include: (a) lack of information and education; (b) sickness and physical weakness; (c) uncertainty about income and large risks; (d) physical or social exclusion, or isolation; (e) lack of opportunity to participate and exert influence; (f) loss of social status and/or self-esteem, etc.

The concepts nevertheless differ between - and within - donors, which fosters misunderstandings and complicates co-operation. Figure 2 presents semantic differences regarding poverty. The models can be broken down into two main groups: concepts based on a lack of something, and those based on human rights.

Figure 2. *Typography of Poverty Concepts*



Poverty as the lack of basic needs and services appears in many of the poverty concepts of DAC donors, as does the lack of income. On the other hand, fewer donors focus on the lack of social capital, land and other natural resources, and material assets. Only Canada and Sweden address these aspects of poverty thoroughly in their strategies. It is noteworthy that no DAC donors have focused on "time poverty", i.e. the lack of time to fulfil all obligations, which is often a form of poverty plaguing women, and highlighted in gender research.

The Nordic donors and to some extent the European Commission and the United Kingdom under its new government, have emphasised the concept of human rights-based poverty in debates between donors as an alternative to the more narrow concept of a lack of income and consumption.

Studies emphasising the absence of political and social rights often conclude that poverty is distributed unevenly between men and women. Many DAC donors stress the intrinsic value of equality (as a "value in itself"). The donors emphasising income-related poverty (e.g. World Bank) see gender-sensitivity more narrowly as a means in attempts to reduce income-related poverty, which in a way is a positive thing, but has also been interpreted as an insult to the dignity of women.

The concept of multidimensional poverty is intuitively appealing, but difficult to implement. The recent evaluation of the Country Assistance Strategies (CASes) of the World Bank showed that the Poverty Assessments conducted by the World Bank issued primarily from the perspective of income-related poverty measured in terms of money. Thus the CAS lacked measures to affect the socio-political reasons behind income-related poverty.

Nevertheless, many DAC donors emphasise that instead of visible poverty - or rather in addition to it - attention should be focused on the processes spurring social exclusion. What are the root causes of poverty? The analysis becomes very complicated if the aid organisation wishes to operate in a participatory manner, so that poor people have a chance to define poverty and its causes themselves. This would be important; donors dependent only on information from experts may remain unaware of crucially important factors and viewpoints.

Common working definitions

The governmental aid organisations - i.e. donors - are large organisations employing several hundreds - and in total thousands - of people. In order for them to function efficiently the staff members must understand one another. This requires that all players - ranging from political decision-makers to senior management, and from intermediate levels of mid-management to desk officers in charge of projects - conceptualise the main goals and means in a sufficiently uniform way.

Despite their rhetoric most donors use narrow measures of income-related poverty (GDP/capita etc.), and this practice must gradually shift towards multidimensional poverty indicators. A first step could be that poverty/welfare assessments would attempt to assess not only the money-metric income flows of households, but also the welfare gains they receive from public health-care, education and water services, as well as public roads and environmental protection.

The next step could be that poverty assessments take account of the amount of disposable resources and assets of households, the certainty or uncertainty of their income, and the degree of their social exclusion, as well as their possibilities of participating in and influencing policies. In practice, of course we encounter some difficulties, e.g.:

- What are the best - and most feasible - measures for assessing these dimensions?
- Should all indicators be commensurable?
- Should some measures be weighted more than others?
- What are the thresholds for various measures below which people can be defined as poor (poverty lines)?
- Can we use some proxies that are easier to measure/evaluate if the best criteria are very difficult to evaluate methodologically (e.g. opportunities for political participation and influence)?

Compromises must undoubtedly be made. The recommendation of researchers in the ODI-co-ordinated Scoping Study was that the DAC Informal Working Group on Poverty should develop a common multidimensional diagnostic framework so that compromises between ideal and practical methods could be made collectively and consciously by the donors. It would be important for donors to use common and comparable proxy indicators, the shortcomings of which could be periodically tested by more detailed research.

Strategies and approaches toward poverty-oriented development co-operation

The strategies to reduce poverty employed by DAC donors can be categorised into four groups: (a) economic strategies, (b) social strategies, (c) political strategies, and (d) safety net strategies.

Broad-based or pro-poor economic growth?

Poverty reduction requires economic growth, according to all DAC donors. But not just any kind of economic growth suffices: many DAC donors specify that economic growth must be either "broad-based" or "pro-poor".

However, donors seem not to have seriously considered what these definitions mean. According to the DAC Scoping Study, donors have not studied or defined very carefully the relative importance of growth as opposed to income distribution. In other words, which is the more important goal, growth or an even income distribution? The common interpretation is that growth is broad-based if it favours additional employment more than the acquisition of new machinery and equipment. Whether or not this kind of growth is pro-poor depends also on e.g. how many new jobs are created and how the level of wages changes, i.e. whether employment increases the incomes of poor persons.

A clear definition of "pro-poor economic growth" would be that economic growth is "pro-poor" if the proportion of the national income going to poor population groups grows. However, the DAC-donors have not been able to define the kind of income distribution policy they should promote in order for the share of national income to the poor to really grow.

The DAC Scoping Study praised Finland's definition, which is one of the clearest.²⁷ According to the new policy:

"Finland sees that economic growth as such is not sufficient to eliminate poverty. There is also a need for a democratic decision making system, social policy mechanisms fostering equality as well as a social security system suitable for local conditions, which guarantees even distribution of incomes and prevents the exclusion of the weakest members of the society."

²⁷ Ulkoasiainministeriö (1998). Note: Switzerland has the same type of definition in its development country strategy.

Austria and Norway have even gone slightly further, stressing that in addition to the income distribution mechanism there is a need for mechanisms of income redistribution, i.e. "take from the rich, give to the poor". It is interesting that of the donors studied, the IMF emphasised the significance of income distribution more than almost any other donor. Relying on empirical research, IMF representatives have stressed in interviews that equality is a significant prerequisite for economic growth.²⁸ In other words: in the short-term economic efficiency should not be increased at the expense of equality, since equality appears to bolster economic growth over the long-term.

Sweden has also emphasised that pro-poor economic growth is more sustainable than growth which fails to take the poor into consideration. The DAC Scoping Study praised Sweden's analysis, according to which some of the best ways to encourage pro-poor economic growth involve trying to ensure that growth promotes equality between regions, genders and generations.

The Netherlands emphasises the redistribution of land and assets (capital), but it does not specify what kind of political choices would serve this end. The Scoping Study recommended to the DAC Informal Working Group on Poverty that it incorporate the redistribution of land and other assets in its work programme.

The attitudes of donors toward the redistribution of human capital (e.g. increasing the share of poor children in schools) represent a considerably more problematic issue than redistribution of income or property. Certain DAC donors have made considerable efforts to understand how basic social services should be organised so that the benefits are channelled toward the poorer segments of the population. Great Britain emphasises the significance of sustainable rural livelihoods in ensuring the financing base and availability of basic services. Denmark, France, Ireland and Italy have emphasised – each in their own way – the significance of strengthening social institutions as well as local initiatives and processes. Many DAC donors feel that active improvement of poor people's opportunities to participate is an essential precondition for implementing basic pro-poor services. Among others, the IMF, Sweden, Finland and UNDP stress the importance of good governance – particularly in local administration.

The comparative analysis in the Scoping Study provided evidence of the highly significant – and sometimes contested – policy conclusion that high tax rates and a large public service budget form a more efficient combination – *ceteris paribus* – from the viewpoint of poverty reduction and empowerment of the poor than a low tax rate and small public service budgets.

Many DAC members also understand that macroeconomic policy is not gender neutral. Donors' strategies for poverty reduction should therefore be

²⁸ Cox et al. (1999).

based on a gender analysis of economic policy and growth, where the economy is analysed with respect to its productive as well as reproductive segments.

Social and political models

Participation is a theme that development NGOs brought to international debate in the 1980s. At that time involving the poor was a 'speciality' of some of the NGOs and they made a lot of 'noise' about participation, partly in order to influence government donors, but also to emphasize their own identity and profile. They claimed that the poverty-oriented projects financed by NGOs succeeded better than the projects of government donors because in the NGO projects much more scope was provided for poor people to participate in the identification, design and implementation of projects. They thus feel ownership of the projects, which they commit to carrying out themselves. The development impact was thus claimed to be more permanent than in the projects of government donors.

As regards participation, the situation is very different at the end of the 1990s. Almost all government donors, too, now recognise the significance of participatory methods and the empowerment of the poor. In reality, however, participation is still far too often merely a rather poorly internalised buzz-word. On the other hand, the DAC donors have indeed developed their thinking about participation, political influence, good governance, democracy and human rights in an interesting way, deepening their understanding of the institutional factors.

Participatory methods have also brought us some qualitatively new information about the incidence, depth and dynamics of poverty, i.e. what kinds of factors drive people into poverty or can help them break free of it. The World Bank's Participatory Poverty Assessment (PPA)²⁹ on Tanzania generated some very interesting information on social capital, too.

The researchers observed that the more social capital there was in a village - e.g. official associations and unofficial co-operation and contacts between residents - the higher the monetary incomes of the village residents. It could of course be claimed that social capital was spawned in rich villages. This cause-effect relationship was nevertheless controlled for by the researchers. It is interesting that the income impacts of social capital appeared to be even more powerful than those of human capital, which was measured by the numbers of elementary school graduates.

The conclusion of these researchers was that growth in social capital could be considered one of the most meaningful objectives of development co-operation. At least it should be ensured that development co-operation programmes aimed at promoting economic growth do not undermine the existing social capital. This has often been the case in development co-operation: poor societies have been served solutions based on efficiency and competitive principles, so that solidarity and joint spirit have eroded away.

²⁹ Narayan (1997).

The end result has been worse than the starting point from the perspective of the poorest.

It has also been proven possible to boost social capital with certain development programmes. In Finland's bilateral aid programme there is clear evidence of this, e.g. in the southern Mtwara and Lindi regions of Tanzania, where a Rural Integrated Project Support (RIPS) programme has been carried out. When a project was set up to improve the educational infrastructure of villages, the members of the school community were required to come together to negotiate and draw up a joint development plan for their school and to gather half of the funds for the renovations. The negotiating and participatory planning skills and the positive feelings and reciprocal trust gained from this joint school project later proved to be useful social capital to help the villagers initiate further projects to improve the water services and feeder roads in the village.

The emergence of good governance, democracy and human rights in the core of the rhetoric and action of many DAC-donors can also be explained by the dramatic political shifts that occurred in the latter part of the 1980s and early 1990s. Since the end of the cold war it has become easier for the OECD donors to claim that multiparty electoral democracy, as implemented in Western industrialised countries, is the one and only correct way to realize the ideals of good governance and human rights. The researchers have shown a positive correlation between good government and economic growth. However, we lack equally clear evidence about the relationship between democracy and economic growth.³⁰ Moreover, the pro-poor nature of the decentralization programmes which many DAC-donors are nowadays eagerly supporting is still based more on optimistic assumptions - albeit credible ones - than empirical evidence.

The new British Department for International Development (DFID) has launched a programme under the heading Pro-poor Management. The programme seeks answers to the following questions, which are highly relevant for all research about the nature and dynamics of social capital:

- 1) What kinds of political organisations improve the opportunities of poor and destitute people to influence government policy and its real-life implementation?
- 2) How should governments be reformed to be better able to collect tax revenues and be responsible for their honest use?
- 3) What kinds of policies and organisations produce basic services in the most equitable and efficient manner?
- 4) How can we best ensure the personal security of poor people and enable them to defend their rights in public courts of law?

In order to answer these questions, both donors oriented toward practical matters and researchers interested in more theoretical aspects of social capital must develop a much better understanding of the societies of poor

³⁰ See e.g. Healey and Robinson (1993).

countries, since the institutions and social capital embedded in them are always country-specific in nature. There must also be open and honest dialogue with the governments of these poor countries.

Social safety nets

The development aid agencies of the DAC countries have surprisingly little to say about social safety nets, even though these formed the third prong of the three-prong poverty reduction strategy presented in the World Bank's 1990 World Development Report and subsequently adopted by many donors.

Denmark's and Norway's aid planners seem to conceive of safety nets almost as the social security systems of modern welfare states. But since such systems are beyond the financing capacity of the poorest countries, some Danish and Norwegian commentators regard the entire safety net idea as irrelevant from the standpoint of the poorest countries. In contrast to most donors, the USAID regards its emergency aid programme as a social safety net. The IMF definition, according to which the "safety net protects the most vulnerable groups during exceptionally difficult periods" is perhaps the smallest common denominator in the safety net ideology of donors.

Practical tools in the donors' safety-net programmes include public works, targeted food aid, sickness insurance, as well as unemployment and pension security. In addition, some donors mention that in the poorest countries the most important guardians of social security are local, traditional and unofficial social security systems, which assist the poor during the hardest times.

It is clear that the donors have thus far had very limited constructive input in building the social safety net systems of poor countries and people. It is perhaps most vital to ask how we could ensure that donors' actions (e.g. structural adjustment of the economy or agricultural modernisation programmes) do not increase the income-related risks of poor persons or undermine the basis of local coping and survival mechanisms.

There is evidence that while structural programmes have reduced the numbers of the poor, at the same time they have deepened the poverty of those remaining in poverty to such an extent that traditional safety nets have collapsed.

Public works on the basis of the "Food-for-Work" principle - especially during agricultural slack seasons - is a surprisingly efficient way to create safety nets for poor people. There is evidence in at least some poor countries that the targeting of employment benefits to poor people requires that the wages paid for work are kept very low. If the wage level (money or food) is high, the more affluent members of the society push their way past their weaker and poorer neighbours in the employment lines, so that the poorer ones fall through the safety net.

From Finland's point of view it would be important to understand how the principle of "Society for All" can be applied and promoted in these poor and poorer societies where there is insufficient wealth for welfare society institutions in the sense of the Nordic model.

The right to own or at least use farm land and the common right to enjoy the fruits of state-owned or communal forests are the basic elements of social security in many poor communities. The internal solidarity and social capital of communities are factors fostering the social security of poor people. If these factors degenerate it is not easy to replace them, even with large social sector budgets.

The organising of basic social services in Finland has been weighted toward providing education, health services, water and food for all people as universal social rights. The most important thing in poor societies is that governments (central governments and local authorities) guarantee the availability of basic services for everyone - not necessarily completely free, but sufficiently subsidised with tax proceeds to allow their use even by the poorest citizens.

It is good for Finns to understand that the Nordic approach differs in these matters from the perspective in many other OECD countries. For example, the Anglo-American "poverty lobby", i.e. the civil servants defending the poverty-orientation of development aid, NGO-lobbies and researchers, may oppose development co-operation funds used to finance basic education for everyone, saying that too much of such aid leaks to the non-poor, i.e. to the fairly well-off middle class, or to the rich. They often demand that if the purpose of development aid is to reduce poverty, all aid to education and health-care should be targeted only for the benefit of the poorest.

The proponents of the Nordic approach often need to sharpen their argument to convince their British and American colleagues about the benefits from the standpoint of the poor of providing tax-subsidised basic services for everyone: what would happen if public services were targeted only toward the poor?

The answer is that the middle class and the rich would then have to organise private schools for their children and private health services for their families. This would probably cause the tax base of local and central government to collapse, since why would the middle class and the rich agree to pay taxes if the government did not provide them with services? As a result, the government would be able to fund only very modest education and health care services. In contrast, if the middle class and rich have their children in public schools, it is in their own interest to ensure that the teaching is of good quality and the conditions satisfactory. The children of poor families are thus able to enjoy the "benevolence" of richer and more influential persons - and their willingness to pay taxes - as they attend the same schools as the children of the more affluent.

Although basic services are in principle targeted at everyone, there may be a need to finance special activities whereby the poorest families are informed about these services and their rights to use them, and to encourage them - who often suffer from gender-related time poverty - to send their children to schools and their sick family members to public health centres.

It should be noted that targeting development aid to support productive activities for the poor works by a different logic than development aid given

for basic social services. Above, I described a “win-win” situation where the children of poor families benefit when development aid is targeted at schools also attended by rich children. In productive activities the relationships between the poor and rich are nevertheless more often “zero-sum games” than “win-win games”: If development aid is targeted at modernisation of agricultural methods, for example, the poor may turn out not to have money to participate in the project because this would require the purchase of new seeds, tools or fertiliser, or taking large new loans on top of old ones. But if development financiers instead decide to give their aid to non-poor farmers whose productivity and income levels improve as a result, this empowerment of the non-poor may prove detrimental to the poor if, for instance, the empowered non-poor use their increased income to buy out the remaining fields from the relatively impoverished poor.

Need for historical and political introspection in mainstream development economics

Since the challenge discussed in my own presentation has been world poverty, I now cite a few relevant sections of a book entitled *Challenge of World Poverty*, written by Gunnar Myrdal 30 years ago:

“It has been common in the past to draw a distinct line between ‘economic’ phenomena on the one hand and ‘social’ ones on the other... This is partly due to the rather narrow approach to the development process characteristic of past thinking in economics, which relied heavily on simplistic econometric models with highly aggregated variables. This school of thinking has influenced planning methods and techniques on the national level (in the developing countries) and also... the work of the United Nations in this area.”

“This approach using relatively simple models with easily quantifiable variables, such as GNP, capital investment, exports and imports, leads to a neglect of certain very important factors and aspects of the development process. Thus neglected are all matters relating to differences in incomes and levels of living - between classes, regions, sectors, age groups, town and country, matters relating to human development - health, education, children, matters relating to consumption - nutrition, housing, social services. To these neglected factors should be added the crucial problem of social stratification and many other aspects outside the sphere of the narrow economic models, particularly the vast underutilization of labour.”

Myrdal was encouraged by the statement of a UN expert group announcing that “the time has now come when the economic approach to development analysis and planning has to be integrated with a social approach which is different in nature and would be more relevant to the problems of developing countries in the coming decade.” Myrdal commented on this optimistically:

"I feel certain that the massive research efforts now devoted to conditions in underdeveloped countries will in 10-15 years' time necessitate an entirely new approach in line with what I call an institutional conception of the problems...We will have to do away with much of what among economists is often miscalled 'sophisticated' methods...That pretended sophistication usually involves having very scanty knowledge of the history of ideas and/or of the philosophy and sociology of science."

Myrdal was too optimistic. Thirty years have already passed since he wrote about the challenge of poverty and discussed the challenge presented by the backwardness of his own field of science, economics. But unfortunately the artificial dividing line between economic and non-economic has not yet faded into history.

Nevertheless, Myrdal would have some reason to be optimistic today, not least because the concept of social capital is becoming entrenched. The World Bank and the Danish aid agency Danida are financing a large-scale research programme which can be expected to deepen our understanding of how social capital improves the functioning of markets at the micro-level, how legislation, government actions and other institutions improve the efficiency of society, and how the providers of development assistance can invest their funds to bolster the social capital of poor societies.³¹

My optimism with regard to international development finance institutions already began to grow three years ago when the new President of the World Bank, Jim Wolfensohn, announced the initiation of an ambitious internal reform programme in the World Bank. The programme goes by the name of the Strategic Compact.³² The most interesting thing to me about the Strategic Compact is that Wolfensohn and the World Bank have recognised that the institute did not have sufficient expertise to perform its prime task alone. According to Wolfensohn, the main task of the World Bank is reducing poverty, and to succeed in this the World Bank needs more skills in the social and sociological analysis of societies.

Wolfensohn is a former Wall Street banker and a "man of action". He has subsequently recruited new social development experts to the World Bank, initiated a research programme on social capital, bolstered the Bank's Social Protection Division by hiring competent European social policy-oriented economists, created links with other expert organisations in Europe, e.g. Finland's STAKES³³, and drawn up new strategies for the Health, nutrition and population sector,³⁴ the Social security sector³⁵, and for Good practices in social policy³⁶. Wolfensohn has also strongly insisted that the global

³¹ Serageldin (1998).

³² Kesu (1997).

³³ STAKES = The Finnish National Research and Development Centre for Social Welfare and Health.

³⁴ World Bank (1997).

³⁵ Holzmann and Jorgensen (1998).

³⁶ World Bank (1999).

economic elite handling the banking crisis in East Asia, Russia and Brazil should focus attention on the "The Other Crisis"³⁷ that extreme poverty causes in millions of poor homes daily around the world.

Wolfensohn newest and boldest - and in a way also the most worrisome - endeavour is called the "Comprehensive Development Framework",³⁸ or "CDF". Wolfensohn presented this idea to the directors of the World Bank on January 21, 1999. His aim was to encourage the other directors and Bank personnel to think about the development of every client country - i.e. developing country - in a sufficiently holistic fashion and with a sufficiently long-term perspective. The CDF stresses that development is not sustainable if the country's government and broad-based civil society groups are unable to participate genuinely in the development process (partnership) and treat it as their own (ownership³⁹).

The main message of Wolfensohn's CDF is that a poor country's macroeconomic policy issues (about which the country negotiates with the IMF) and long-term structural and social issues (which are in the realm of the World Bank) related to the country's development are as naturally linked as breathing in and breathing out. According to Wolfensohn's proposal the "Comprehensive Development Framework" consists of the following factors (Table 5).

Table 5. *Comprehensive Development Framework according to Wolfensohn's proposal*

A. STRUCTURAL	B. HUMAN	C. PHYSICAL STRATEGIES	D. SPECIFIC
(1) Good and Clean Governance (anticorruption) (2) Effective Legal and Justice System (3) Well-organised and Supervised Financial System (4) Social Safety Nets and Social Programs	(5) Education and Knowledge Institutions (6) Health and Population Issues	(7) Water and Sewerage (8) Energy (9) Roads, Transportation and Telecommunications (10) Sustainable Development, Environmental and Cultural Issues	(11) Rural Strategy (12) Urban Strategy (13) Private Sector Strategy (14) Special National Considerations

³⁷ Wolfensohn (1998).

³⁸ Wolfensohn (1999).

³⁹ As regards ownership Wolfensohn uses a metaphor that has become familiar from the dialogue between Northern countries and Tanzanian: In order for ownership to be realized in the right way, the poor developing country (government) must "sit in the driver's seat". In my study on Tanzania (Voipio and Hoebink 1999) I criticize this metaphor by claiming that it raises unrealistic expectations that the Tanzanians could in the near future sit in the driver's seat of a vehicle powered by conventional fuel (car, motorcycle etc.). In a poor country like Tanzania it would be more realistic to expect local people to be in the "rider's seat" of an oxcart.

Wolfensohn made the CDF into a framework, i.e. a matrix, by including another axis where he identified all of the main players in society.⁴⁰ The CDF is not intended to be a rigid scheme designed in Washington, imposed on a country from outside without adaptation to local conditions. To emphasise this Wolfensohn included in his draft proposal a country-specific CDF for Bolivia, where the headings of the matrix fields were changed. The principle is nevertheless the same: a comprehensive picture of a country's situation and main players at a glance. The players can be represented by headings of rows on the y-axis of Wolfensohn's basic matrix (table 6).

Table 6. *Wolfensohn's Matrix*

(a) Government
- national central government, incl. elected parliament
- provincial or intermediary government, incl. elected officials
- municipal or local government, incl. elected officials
(b) Multi- and bilateral development assistance organisations and financial institutions
(c) Civil society
(d) Private sector

For social scientists Wolfensohn's CDF proposal represents a tremendous advance. At last, one of the world's main influences of development policy and an institution with ten thousand economists seems to understand that development cannot be measured and assessed only in dollars. Instead, there needs to be a clear appreciation of the interrelationships of physical and country-specific factors, and of different institutions and people, in order to understand how development - i.e. change for the better - can be achieved as the result of a suitable blend or balance of these many different influences.

What I mean by Wolfensohn's Comprehensive Development Framework being worrisome is the fact that we have had to wait so long for Jim Wolfensohn. Why have none of the World Bank's ten thousand economists come up before with the concept that Wolfensohn now presents as a "new dimension"? I would imagine that undergraduate studies in sociology or social and economic history might have provided a sufficient base for this "discovery". Why aren't we learning? Why did the World Bank do things "wrong" for 50 years, before Jim Wolfensohn came along with the "right" message?

Thirty years ago some inspired "avant garde economists" organised seminars in Washington and Helsinki, where the discussion focused on a new kind of capital, which would revolutionise and correct the previous

⁴⁰ Cf. Wolfensohn (1999) appendix 2. Wolfensohn's empty CDF matrix and in appendix 3 the CDF matrix depicting the situation in Bolivia.

mistakes of economics: the Swedish economist Gunnar Myrdal presented some of the same criticisms as I do now:

"What should we think about a 'new school' of economics which claims to have made a 'discovery' about the importance for development of education? This is, of course, nothing new to the educationists or economic historians, and had also been appreciated by the classical and neo-classical economists from Adam Smith to Alfred Marshall. When it is now a discovery for economists, the explanation is simply that it had been forgotten by members of our profession...when in our development models we have thought merely in 'economic' terms and, more specifically, in terms of physical investment."

"More striking, however, is that this newest school of economists...is not radical enough. They restrict themselves, in fact, merely to widening the concept of investment - ordinarily up till then understood as physical investment - in the capital/output model so as to include also 'investment in man'".⁴¹

I recommend an article by Paul Collier of the World Bank, entitled "Social Capital and Poverty"⁴², and I cannot help but wonder what Myrdal would have thought about Collier's interpretation and use of the concept of social capital:

"The social capital is the value of overcoming the externality known as the 'free-rider' problem in the village: everyone wants there to be a bus, or a school, but nobody wants to help purchase it. Yet (let us suppose) the economic return on them is higher than that on other assets. The collective action enables this higher return to be realized. The value of the collective action is the present value of this incremental stream of benefits and this is the social capital of the village community."

"More generally: $V = v(SI, L, K)$, where the bus uses K , and the school uses both L and K . These conventional inputs are not to be counted as social capital. Social capital is the contribution of social interaction (SI) to V ."

Table 1. Collier's Empirical Data

Variable	Coefficient	T-statistic
Constant	-50.11	-3.27
ELF	-0.14	-1.25
LnTelephones	16.35	6.22
Pop.density	-0.18	-3.01
Pop.density. squ	0.00043	2.92

⁴¹ Myrdal (1969).

⁴² Collier (1998).

At the end of a rather extensive discourse, Collier ends with a series of conclusions of the following form (for example):

trust = t(liberty, ELF, phones, density, courts, lawyers)⁴³.

My problem is not a failure to understand what the writer means; in plain English the above formula says that trust is positively correlated with liberty, but negatively with the number of lawyers. My main problem is that I'm not sure if I am interested in hearing that research conclusion, or whether I believe it to be true. I would be curious to hear Gunnar Myrdal's comments on the studies of Collier, a distinguished economist and head of the World Bank's Development Research Group. Myrdal commented on the work of education economists preceding Collier as follows:

"Adam Smith and Alfred Marshall, as institutionalist as they were, would never have thought of it; Marshall even warned against a translation of the factor of education into the financial terms of investment and output... It can only block the way to realistic and relevant research of the crucially important problem...of the content of education and its impact on attitudes and institutions, in particular those of economic and social stratification, and the impact of these factors back upon education."

Another of the economists I greatly respect, Keith Bezanson, the director of the Institute of Development Studies, Sussex, had the following to say last October at Kellokoski, Finland:

"Development thinking and the very language of development will have to be modified...To quote Keynes: 'The difficulty lies not in new ideas, but escaping the old ones.'...Most development discourse continues with a language of unlimited economic growth and expansion in the face of a reality of social and ecological collapse...Yet just as the Chinese ideogram for 'crisis' is made up of two symbols - one for danger and one for opportunity - it is essential that development thinking look beyond the dangers and seek out the opportunities...One of the good opportunities involves the rise of local initiatives as people and communities around the world demand more control over their lives...This is perhaps driven in part by sheer necessity, by the declining capacity of the nation-state to distribute social good...But it is happening. There are elements of social innovation, or re-claiming control, that give cause for optimism...As Robert Putnam writes: 'Successful collaboration in one activity builds social capital connections and trust for other activities. The social capital is built from an investment of the time and caring of individuals: it does not deplete the public treasury.'"

"For much of the past forty years, development has been cloaked in the pretence that it was value-free or value-neutral. Nothing was further from the truth. The foundation stone of development thought and practice was the dominant socio-economic paradigm of the industrial

⁴³ Liberty = civil liberties; ELF = ethno-linguistic fractionalization; Phones = the telephone density; Density = population density; Courts = independence of courts; Lawyers = number of lawyers.

North, emphasising individualism, technology, consumption, personal wealth and the inadvertent neglect of the social fabric of the community. Values and culture were factors which, for the most part, simply 'got in the way'; they were dealt with as incidentals, as 'externalities' to the development model. The rethinking of development must deal with this and not merely with how to 'enhance' or 'refine' our approach."

Life politics, learning from the 'otherness'

Encouraged by these thoughts, I complete this chapter with a few ideas on the values underlying our development thinking and about the changes that would perhaps lead us in more positive and credible directions in the future.

Our concept of poverty is typically characterised by the idea that the poor are lacking something which the rich have. It is no great exaggeration to say that the California of the 1960s is still the "norm society" for international development aid, i.e. the model of a happy society which the poor countries are supposed to emulate if and when international development co-operation is to be successful in its objectives.

Familiarising ourselves with the diversity of life in the societies of developing countries nevertheless awakens our thoughts and senses to the anthropological "otherness" which has power to make us question our norm-like concepts. Anthony Giddens has written about this in a book called *Reflexive Modernization*.⁴⁴

"A post-scarcity society is a society in which the aim of 'development' comes under close scrutiny. Here the affluent have a great deal to learn from the poor; and the West from other cultures which in the past it has simply threatened with extinction."

"The idea of a post-scarcity system can no longer mean...a society in which scarcity has been eliminated by endless abundance...The ecological crisis shows us that scarcity is in some respects endemic to human life upon this earth. A post-scarcity order would rather be one in which the drive to continuous accumulation has become weakened or dissolved. Here, questions of life-politics connect directly with the prospects for global justice."

According to the UN Commission for Sustainable Development, the two main challenges for sustainable global development are: (a) poverty reduction in poor countries, (b) changing unsustainable consumption and production practices in affluent countries.⁴⁵ The critical question could thus be: what kind of social capital could compensate for the loss that we would experience in making do with less consumption measured in materialistic units? Giddens has an intuitive thought about this:

⁴⁴ Giddens (1994) in the book Beck, Giddens, Lash (1994).

⁴⁵ [Http://www.un.org/esa/sustdev/csd9802.htm](http://www.un.org/esa/sustdev/csd9802.htm).

"The post-scarcity order begins to emerge in so far as individuals actively restructure their working lives, valuing other things than their sheer economic prosperity (e.g. valuing time - the ultimate scarce resource for the finite human being - more than money). It is worth remembering that the growth ethic was never adopted by the whole population; many women stood outside, and continued to live for values other than those implied in 'secularized puritanism'. A generalizing of some of those values would certainly make a large dent in the ethic of continuous economic accumulation."

As already mentioned above, the aid agencies - as intermediaries of experiences and views between South and North - have something to give to both developing countries and us rich Northerners.

"For us (the non-poor) this implies rethinking the barriers between scholarship, private life and (political) action: Any practical analysis of poverty has to examine the whole system, not just poverty and the poor. Since we (the non-poor) are the ones with more power to act, it is hard to evade the imperative to turn the spotlight round and look at ourselves, e.g. our ways of life."⁴⁶

Should we start this endeavour by rethinking our energy policy principles, consumption patterns, transportation, trade, taxation or labour policies, or by re-prioritising our health-care and research budgets? Our rhetoric and concepts about poverty provide another good starting point. Our views of the realities of the poor, and of what should be done, are constructed mainly from a distance, and can be seen to be constructed mainly for our convenience. What do we know about poor people's own visions of futures beyond poverty? Whose knowledge counts?

⁴⁶ Chambers (1997).

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Building Local Social Capital in the European Union:

Partnerships and the Third System

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Summary

The aim of this paper is to outline the contribution of some European policies or programmes to the creation of social capital. The term social capital appears seldom in European policy papers or reports, the much more commonly used expression being social cohesion. However, social capital is implicitly present in European programmes, particularly in the areas of regional and local development (e.g. innovation, information, rural development) and employment (e.g. territorial employment pacts, local employment initiatives, Employment and ADAPT Community Initiatives), where area-based partnerships have been instrumental in improving the effectiveness of policies and measures through strategic planning based on the identification of local needs and exploitation of local resources. The local dimension of employment policy and the role of partnerships were highlighted in the 1999 Employment Guidelines and will receive further attention in the years ahead.

The paper places a major focus on the contribution of the 'third system' to the creation of social capital, and how European programmes are supporting this. The number and health of voluntary or civic organisations, what we could call the third sector (or system), could be considered as an indicator of the stock of social capital. In Europe the third system has increasingly attracted the attention of policy makers, partly for its employment potential and contribution to social cohesion. Third system organisations have experienced strong growth in their employed personnel (remunerated or not), with numbers outpacing the rest of the economy. Third system organisations are particularly active in the areas identified as new sources of jobs. They play a major role in the delivery of social services and in the reintegration of excluded people; they contribute to social cohesion but also to the creation of social capital, as they foster many local initiatives that involve other local actors.

Specific support for their activities is being introduced into European programmes such as the budget line Third System and Employment, and the main ESF programmes, where they may play an expanding role. One innovative means of support is the experiment involving the allocation of global grants to an intermediary body that will distribute it to people or third system organisations promoting small initiatives in support of social cohesion or employment, providing further means to finance hands-on support.

Introduction

Social capital refers to "features of social organisation such as networks, norms, and social trust that facilitate co-ordination and co-operation for mutual benefit" (Putnam 1995). Social capital is related to civic engagement and social connectedness, to the quality and quantity of social interactions.

The research undertaken by the World Bank has shown that the concept can be interpreted in more or less narrow terms. Social capital can be understood at different levels. The narrower meaning would include "horizontal social networks", mainly affecting associations between people. A wider interpretation would include "horizontal and vertical associations", including behaviour within and among organisations. An even broader view of social capital would include formalised institutions such as governments or legal systems that shape the social and political environment and affect development patterns.

It is argued that social capital contributes to better education, health and economic performance. Some authors have argued that countries with higher levels of mutual trust have a stronger competitive position in the world economy. Civic sense and mutual trust could be considered as a social infrastructure that facilitates investment and commerce, and therefore economic growth. The argument goes that collective action is facilitated and co-ordination of social agents eased, adding a new mechanism supplementing the state or the market, so that "for a variety of reasons, life is easier in a community blessed with a substantial stock of social capital".

Social capital appears seldom in EU documents, policy papers and reports, a more widely used term being social cohesion. The First Report on Economic and Social Cohesion (1996) acknowledged the difficulties in defining social cohesion. Art. 130 of the EU Treaty defines economic cohesion. It says that the Community will endeavour to reduce the disparities of development levels between regions and to reduce the lagging behind of less favoured regions. However, no definition was provided for social cohesion. The report linked social cohesion to the objectives of the European social model, based on the concept of a market social economy, where the dimension of solidarity is key. In practical terms the report states that promoting social cohesion entails the reduction of disparities raised as a consequence of unequal access to opportunities of employment (unemployment) or to income (poverty). The Amsterdam Treaty later introduced a mandate for the European Union to act to combat exclusion.

However, some authors (Bomhof and den Hertog 1997) when analysing social cohesion and its effects on economic performance use social capital indicators such as confidence in institutions and civic sense (people's perceptions of drug-addiction, tax evasion, etc.) to assess if there is a correlation between social cohesion and economic performance. They conclude that weak confidence is associated with slower economic growth and that countries with a stronger civic sense tend to have faster growth.

The European Commission Medium-Term Social Action Programme 1998-2000 sets out by stating that economic and social progress go hand-in-hand. The objective is to raise people's standards of living within the context of a balanced macro-economic strategy: "Social policy should promote a decent quality of life and standard of living for all, in an active, inclusive and healthy society that encourages access to employment, good working conditions, and equality of opportunity". Employment is central to this vision, as it is still a major determinant of the role and position of people in society, and of their social linkages.

It should be stressed that the underlying logic is that social policy is not an add-on to economic policies, but rather that social policies are considered as productive factors in themselves. Social policies contribute to better economic performance through the creation of a participative and cohesive society.

Both social capital and social cohesion have a very strong local dimension. Most social interaction takes place in a geographically defined space, locality or region. Associations of people occur mainly within communities, in proximity areas, and with the aim of fulfilling their local needs. This applies equally to market economic interactions. The bulk of economic activity is performed by SMEs, which operate in mainly local or regional markets, and tend to establish local networks of co-operation with large scale enterprises or other SMEs at the local level, and this in spite of the exponential growth of the Information Society (the new Information and Communication Technologies) that is blurring distance and enabling globalisation of economic activities. Employment, the key to social cohesion, is also to a great extent a local phenomenon (OECD 1998)¹. There is a wide diversity of employment and unemployment situations even in areas governed by the same macro-economic conditions. The local levels constitute a space where most adjustments and matching take place (labour supply and demand), and where measures to promote employment are effectively implemented.

The following pages show how EU programmes and policies contribute to the creation of social capital by taking into account the growing importance of local employment and development. Two policy instruments are particularly relevant here: partnerships and financial support. Partnerships are key aspects of many EU programmes aimed at fostering economic

¹ OECD (1998) mentions that about 75 per cent of employees in the United Kingdom change work without changing residence.

development and employment, and of the implementation of the European Employment Strategy. I will then examine how the third sector, a key player at the local level in the creation of social capital, is receiving structured funding support from the EU programmes. This will shed some light on the EU's contribution to the creation of social capital.

Local partnerships as a source of social capital

Networking, a crucial aspect of social capital, is a key issue in the regional development and innovation literature. The specific characteristics of a "milieu innovateur" and the extent to which they can be replicated elsewhere are widely debated (e.g. local production systems such as industrial districts in Italy, where co-operative behaviour is fostered by social networks and trust, are commonly analysed). The innovation literature focusing on territorial (national, regional, local) systems highlights the key role of the interactions between innovation system agents. Innovation is considered a process resulting from the interactions of many actors and where the networking and co-operation patterns are essential for innovative performance². These analyses have been taken into account in the structural policy. The innovative actions undertaken through Art. 10 of the ERDF (e.g. Regional Innovation Strategies, Regional Information Society) have stressed the need for strategic planning based on consensus building and the involvement and networking of relevant local actors³.

But bottom-up approaches, consensus-building, involvement of local actors and networking are far from being specific to technological or economic development programmes. Actually, the development of partnerships as a way of improving labour market policy formation and implementation is not completely new. Different forms of partnerships bringing together local actors have emerged in Europe in the last decade, and the European programmes have contributed to their dissemination.

A partnership can be defined as a "process involving a variety of different players from a variety of sectors coming together in a common purpose to work towards an agreed goal. The process is based on democratic principles, operates with clearly defined support systems, and involves continuous evaluation to produce outcomes which will add value" (European Commission 1998).

² Morgan (1996) reminds us that lack of social capital helps to explain one of the EU's key problems, its "inability to transfer technology from university laboratory to industry, from one company to another and from region to region".

³ The experience of the Spanish region of Castilla-Leon illustrates these approaches. A regional technology plan was elaborated during 1994-1996. The process involved the consultation of all relevant actors (public administrations of different levels, firms, trade unions, professional organisations, universities, research centres) who debated their problems, needs, strengths and opportunities. A Regional Technological Forum was created bringing together economic and social actors. The process of strategic planning has developed social capital and has contributed to a better targeting of ERDF and ESF funds, increasing the technological effort of the region.

Partnerships have emerged as a new form of co-ordination of employment and labour market policy-making (strategic planning) and implementation at the local level. Various factors have contributed to the growth of partnerships in different member states, some as follows⁴:

- The complexity of unemployment and social exclusion problems. These do not have a single cause; different mechanisms can be at work, implying that simple solutions do not exist. Different policy areas and institutions contribute to address unemployment.
- The implementation of individualised integration paths for unemployed people, including counselling, the identification of individual needs and guidance on the most appropriate measures, training and/or work experience, require the mobilisation of different actors.
- There has been a tendency towards the decentralisation of active labour market policies in Europe, to different degrees. This implies that the implementation of national measures is being tailored to local conditions. Even in centralised policy contexts, regional and local administrations have tended to supplement national measures with their own.
- The extent of the unemployment problem has led to the appearance of new actors, such as Chambers of Commerce, SME associations, employers, and in particular community groups. Some develop their own initiatives, while others get involved in local delivery processes.

The main conclusions of the European Commission's Local Employment Development Action Programme (LEDA), action-research programme (1987-1996) shed light on the processes of fighting unemployment at the local level and the value of strategic planning based on consensus building, participation and involvement of local actors (Campbell et al. 1998):

- Policy design and implementation are more likely to be effective the closer these are to the reality: bottom-up approaches that identify local needs, barriers to accessing labour market opportunities, identification and assessment of local priorities.
- A strategic approach that aligns policies and measures across different field is required for tackling long-term unemployment.
- This strategic approach requires the development of partnerships with the effective involvement of local actors, in particular with excluded groups and communities, and building a consensus around this strategy.
- Strengthening the capacity for effective delivery of programmes and measures is essential.

During the 1990s we have seen the emergence of different forms of pacts and partnerships responding to these principles: the Area-Based Partnerships in Ireland, the Employment Pacts in Italy, the Local Economic Integration Plans

⁴ See in particular: European Foundation for the Improvement of Living and Working Conditions, *Partenariat Local: Une Stratégie Réussie pour la Cohésion Sociale?*, 1998; LEDA (1996) and OECD (1998).

(PLIE) in France, and so on. At the European level the Commission has been supporting the development of 89 "Territorial Pacts", an initiative launched at the European Council in Florence in 1996. These cover geographical areas including 36 million people. The Pacts underpin local action for employment and disseminate good practices. They develop a bottom-up approach, encouraging local actors to take the future into their own hands, and to develop action plans and integrated strategies at local level. They should influence the decision process on priority identification, fund allocation and project undertaking.

Further to the Employment Pacts, which have a clear strategic planning nature, many partnerships are dedicated to carrying out specific projects. Establishing local partnerships is one of the guiding principles of the Employment and ADAPT Community Initiatives, and for implementing some measures of Objective 3 of the Structural Funds⁵. In these cases the object of the partnerships is the implementation of integrated approaches, the delivery of new methods of training and acquisition of skills supporting employability or adaptability, the development of support services and shared resources, the building of labour market intelligence, and the networking of micro-enterprises or SMEs.

Building partnerships is not an easy task; it requires work, time and effort. The development of a common vision, an understanding of each other's aims, cultures and contexts, an agreed means of communication, good personal relations, the involvement of all relevant actors, a clear definition of roles and responsibilities, monitoring and evaluation, and agreement on decision-making processes are not easy to achieve. But their effects should not be judged solely by the immediate successes. They can be considered part of a learning process in which hopefully the actors learn to know each other, to establish channels of communication, and to talk and work together with long-term beneficial outcomes.

The European Strategy of Employment, with its origins in the Amsterdam Treaty, has drawn attention to the local dimension of employment and encouraged a partnership approach in various action fields.

As a reminder, the European Employment Strategy has three components:

- macro-economic policy co-ordination
- harnessing Community policies in support of employment
- co-ordination of national employment policies according to guidelines jointly agreed.

The European Employment Strategy has meant a process of convergence, the so-called Process of Luxembourg, based on the multilateral vigilance and peer review, that could potentially turn out to be as powerful as the process

⁵ The principle of partnership is at the root of the Structural Funds. The partnership is established at different levels. Vertical partnerships are developed between the Commission and the member states, between them and the regions, and so on. Horizontal partnerships are developed for the implementation of measures, this being particularly true in the cases of holistic approaches requiring the involvement of various activities and actors (eg. integration pathways).

of convergence was to Economic and Monetary Union. If EMU has been effective in creating healthy public accounts, price stability and a drop in interest rates, the Luxembourg Process seeks similar success in the area of employment policy. The 15 governments of the member states work with common methods and aims, as expressed in the Employment Guidelines and the National Employment Plans.

The employment plans are built on four pillars:

- Employability, to promote the labour insertion capacity of unemployed workers.
- Entrepreneurship, to promote the "esprit d'entreprise" so that new companies and new jobs may be created.
- Adaptability, to develop the adjustment capacity of workers to the new technologies and the new forms of work organisation.
- Equal opportunities in the labour market.

The 1998 Employment Guidelines set out that "member states will investigate measures to exploit fully the possibilities offered by job creation at local level in the social economy and in new activities linked to needs not yet satisfied by the market, and examine, with the aim of reducing, any obstacles in the way of such measures" (10th Guideline).

The Commission Communication "From Guidelines to action: the national action plans for employment" (COM (1998) 316) stated that member states increasingly recognise the potential for employment creation in the social economy, local activities and the importance of new activities which meet unfulfilled social demands. It concluded that many member states had announced the commitment to develop action in these fields but only a few had provided concrete and relevant examples of measures and pilot projects.

The 1998 Joint Employment Report mentioned that partnerships between local authorities and entrepreneurs in the exploitation of business opportunities were being attempted in several countries. However, the Commission and the Council considered that the involvement of local authorities, as well as other important players such as business organisations and the voluntary sector, in the implementation of the NAPs remains modest. The NAPs contain little information on activities carried out at levels other than the national level. The first evaluation of the impact of the NAPs will be contained in the Joint Employment Report 1999.

Finally, the 1999 Employment Guidelines adopted by the Council highlight that "the role and responsibility of partners at the regional and local levels in job creation and in ensuring supportive conditions and structures need to be more fully recognised and supported". The new 12th Guideline (replacing the old 10th Guideline) specifically mentions that to exploit fully the possibilities offered by job creation at local level "the special role of local authorities and the social partners should be taken into account".

The trend is therefore to reinforce the process of involvement at the local level in implementing of the European Employment Strategy and the NAPs. As a confirmation of this aspect, it should be noted that the Committee of the

Regions, together with the Council of European Municipalities and Regions, intends to launch a campaign on Local Action for Employment, through a number of major conferences held during 1999 and 2000. Starting in Helsinki in September 1999, mayors and local authorities will be encouraged to take part in the implementation of the employment guidelines.

But the Employment Guidelines also contain further references to the need for a partnership approach to various areas, such as lifelong learning, the introduction of new technologies, and the implementation of new forms of work organisation. All these are elements that contribute to the development of high performance workplaces necessary to sustain innovation and competitiveness, and ultimately employment opportunities.

The third system as a source of social capital creation

One way of displaying civic engagement is through participation in voluntary or civic organisations. These organisations work in activity areas ranging between the market and the State. They are known under different names (voluntary sector, social economy, community sector, third sector, third system, non-profit sector, civil society). Because they adopt a variety of legal forms, they bear names that mean different things in different countries.

They constitute a multi-faceted world performing a variety of activities but sharing a number of characteristics.

- If non-profit organisations obtain profits, they are reinvested in their activities.
- Needs-oriented, looking for responses to needs rather than obtaining market advantages.
- Paying attention to socially disadvantaged groups, making reference to factors such as solidarity and re-affirming the primacy of the individual over capital.
- Having a close relation with their local environment, the local community (geographical and human).
- Self-governing and independent of the State.
- Their sources of finance are varied and mixed, combining fees, public subsidies, donations and loans.
- Though many are small sized, they have a capacity to mobilise a greater number of voluntary or associated people⁶.

In recent years the third system has attracted attention from policy markets and researchers. There are two reasons for such interest: its growth (particularly in employment numbers) and its role in the provision of social services.

Despite having little solid data to characterise the third sector, there are indications that its component organisations etc. have increased in number

⁶ It is estimated that between a third and a half of the population in the European Union are members of voluntary organisations.

and scale and have created a substantial number of places in paid and non-paid employment.

Comparative research carried out by the John Hopkins Comparative Non-profit Sector Project (Salamon et al. 1998) has estimated that the non-profit share of total employment in the European Union averages 6.89 % of total employment, compared to 7.83 % in the US in 1995. The same source estimates that during the 1990-1995 period employment growth in the non-profit sector was fourfold greater than that in overall employment. The non-profit sector grew by 23 % (4 % a year) whereas overall employment grew by only 6 % (a little over 1 % a year). These trends can be confirmed from data provided by member states in the framework of their NAPs. For instance, the 1998 German employment plan mentions that employment in the third sector grew by 20 % in the previous four years, whereas overall employment remained static.

The Employment Rates Report 1998 (COM (1998) 572) identified great potential for growth in European countries in communal services excluding public administration (education, health, sanitary and social services, personal services). If we compare the structure of employment (sectoral shares of these communal services of total employment) between the EU-15 average (20.7 %) and the US (23.8 %), we observe that these services account for a bigger share in the US. But the disparity is even clearer if we compare the structures in terms of sectoral employment shares of the working age population: 12.5 % in the EU-15 and 17.6 % in the US. This difference means no less than 12.5 million jobs. If we benchmark European employment rates to the US ones, it could be said that there is great potential for employment creation in these services. Of course, employment in communal, personal and collective services cannot be attributed to the third sector alone, since private and public sectors are also strongly represented. Nonetheless, these activities are precisely the ones in which the third sector intervenes and has been growing faster. An important finding of the above-mentioned John Hopkins research is that in Western Europe social services⁷ account for the largest share of job growth (40 %).

But it is not only the quantitative importance of how many jobs are created which justifies this attention. The social functions are also important, in particular those of service-delivery, self-help or mutual support, resource co-ordination and advocacy. The former are somewhat related to the issue of the crisis in the welfare state and the contracting-out of various services previously provided by the State. The increase in unemployment, risk of exclusion and the poverty situation, together with new demands arising from social changes such as the incorporation of women in the labour market, have raised demands for the provision of social services and in ways that require flexibility and understanding of the needs. The third system partially occupies this new ground.

⁷ Social services comprise care services for children, elderly, handicapped, self-help and other personal services, refugee and emergency assistance, income support and maintenance.

One innovative aspect is that we have witnessed the emergence of so-called social enterprises-organisations that undertake economic initiatives with social objectives. They produce services and goods, engage in real economic activity, run economic risks, employ paid work and have a market orientation (income is derived at least partially from prices or fees paid by final consumers or from contractual transactions with public authorities). However, they also have a social dimension, as they are the result of a collective dynamic involving the community. Stakeholders are also involved, profits are re-invested and they have as a principal aim to be of service to the community or to a specific group of people (Borzaga 1998). Social enterprises are particularly active in what is called the new sources of employment identified in the wake of the Commission's White Paper on Growth, Employment and Competitiveness.

Some of these social enterprises have as a social aim the social and labour integration of disadvantaged persons (work integration social enterprises). This element has a great value in terms of social cohesion at the local level. The social enterprises are performing a role that transcends the traditional role of the State or of private enterprises. They provide services for which the market did not exist due to demand or supply structure problems. They are not just subcontractors of previously publicly provided services, as they add new dimensions through the involvement of users and other stakeholders, enabling innovation and better service.

The third system is approaching a situation in which some of the organisations have grown substantially to the point where there is a need to manage properly the change of scale. At the same time they can fall victim to their success, as they have contributed to create new markets for new services, which once made profitable can start attracting economic agents purely for profit. How the third system will face such challenges is difficult to predict.

EU support for third system initiatives

Though the main engine of social capital is the non-profit organisations developing initiatives that contribute to the creation of employment and the strengthening of social cohesion, many of these initiatives are hindered by difficulties in accessing finance (granted, borrowed) and by lack of capacities and support, particularly those coming from small-scale organisations.

The European Union has supported the activities of the third system organisations through various programmes:

- A small percentage of ESF mainstream money goes to social economy organisations⁸. However, some member states are developing ways to

⁸ The mid-term evaluation of the ESF intervention (1994-1997) has identified an increase in the presence of NGO promoters in the area of excluded and long-term unemployment, where approaches favouring social and professional integration are developed.

increase the take-up of ESF funding by third system organisations; for instance the United Kingdom introduced in its Objective 3 Single Programming Document a priority (known as Priority 4) aimed at community capacity building so that third system organisations consolidate their role as service providers in the context of ESF programmes.

- In 1997, 323 social economy project promoters represented about 8 % of the total Employment Community Initiative projects.
- Almost half of the 1996-97 projects subject to calls for proposals on new fields of job growth came from social economy organisations.
- The pilot action entitled Third System and Employment, aimed at the exploration and enhancement of the employment potential of the third system, is funding 81 projects.
- A budget line has been made available to NGOs for preparatory measures for Community action on the basis of Art. 13 (non-discrimination) and 137 (combating social exclusion).
- Some policy proposals concerning social economy and co-operatives could be prepared during 1999.

One of the problems identified is that even though the voluntary sector or the third system cannot claim they have no access to ESF or structural funds money, it is true that this access remains restricted to organisations with the capacity to manage big projects. Lengthy and cumbersome procedures and match-funding rules hinder access to ESF money for groups and initiatives of small size but which are socially useful.

In July 1998 the Commission called for proposals on Local Social Capital. This pilot action aims at developing an instrument, the Local Social Capital Intermediary Structures (LSCIS), which will facilitate financial aid and hands-on back-up to promoters of small projects that have difficulties in accessing traditional sources of support:

"Local Social Capital means an intermediary organisation - operating at regional or local level - capable of providing backup for people who pool their resources with a view to carrying out micro-level projects which promote employment and social cohesion".⁹

The organisations selected by the Commission as LSCIS will be given a grant averaging 1 million EUR. They will be responsible for the channelling of funds in the form of small grants averaging 10,000 EUR, and for giving hands-on support to local micro-project promoters. In other words, they will act as intermediaries between the Commission and the people and groups promoting new initiatives in three areas:

- restoring social cohesion
- reinforcing local networks and groups seeking social inclusion of people
- start-up of micro-business and co-operatives.

⁹ Cf. Call for proposals on Local Social Capital, par. 4.

This model has already been successfully implemented in the framework of the PEACE¹⁰ programme. The Local Social Capital pilot projects will serve as a basis for implementing the money allocated through intermediary bodies under the new Objective 3 of the Structural Funds. The initial proposal of the Commission established that at least 1 % of ESF interventions would be delivered by intermediary organisations, with special access rules for NGOs.

The LSC intermediary structures have three main dimensions: financial, territorial and operational.

The financial dimension of the LSC Intermediary Structures

The IS are responsible for the management of Community funds. Therefore, they must be financially sound and capable of keeping healthy and transparent financial relations with the Commission and the project promoters. In particular, this requires that the IS

- develop fast and sure procedures for the acquisition, management and transfer of funds
- implement systems of control and verification for the correct use of allocated funds
- be accountable to the Commission, and provide periodic and detailed activity and financial reports.

The territorial dimension of the LSC Intermediary Structures

The IS must have a deep knowledge of the socio-economic problems of the territory, both in terms of the problems and the existing social support structures.

The IS have to intervene in a precise geographical area, where they will develop the contacts and the co-operation of people in need of support and of the groups that represent or support them. LSC IS have the advantage of being close at hand so that new bottom-up initiatives emerge in response to local needs.

But the IS also have a larger role as engines of the mobilisation of local resources. The value added of the LSCIS will be confirmed if they show sufficient willingness and capacity to use the money allocated for activities as a basis for the leverage of further resources.

The LSCIS should not try to work alone and in isolation. They must develop and strengthen partnerships with the locally active public services (social, educational, etc) and economic agents to contribute to the development of social capital. The LSCIS do not seek to replace existing programmes or institutions but to supplement them and enhance their reach in favour of those unemployed or socially excluded.

¹⁰ EU Special Programme for Peace and Reconciliation 1995-1999.

(b) The operational dimension of the LSC Intermediary Structures

The LSCIS must undertake a number of tasks to fulfil the aims of mobilising resources. A number of them have been identified:

- to develop awareness of programmes in effective ways so that target groups (organisations and people) are effectively reached
- to encourage the emergence of initiatives by people and groups
- to establish procedures that enable the accessibility of the IS to target groups and people
- to set up simple but sound procedures enabling applicants to have rapid feedback on the response to their applications
- to devise a comprehensive back-up support system (advice, consultation, guidance, monitoring, etc) in order to maximise the chances of success of the micro-projects
- to integrate evaluation as an integral part of the delivery mechanism of the IS.

Conclusions

The complexity and multidimensional nature of problems such as unemployment and social exclusion, together with the insufficient response of traditional market or state mechanisms of co-ordination, have fostered the emergence of new forms of social co-ordination and social action.

The creation of partnerships responds to this need. The process of building and developing partnerships, beyond better priority setting and resource allocation, has significant beneficial effects in terms of establishing a more favourable co-operative environment at the local level, an environment in which new initiatives responding to local needs can grow.

The third sector has emerged as a new actor at the local level. It has proved to be particularly active in the provision of social services and generally in areas where neither the market nor the state have penetrated satisfactorily. It draws its advantages from its flexibility and closeness to the user. The third sector is in mutation: it is growing and has prospects for further growth, but there are still difficulties in gaining funds to finance activities. Despite the trend of an increased share of resources coming from fees and prices charged, third system organisations still rely mainly on public funding. This financial problem can be particularly acute in the initial phases of initiatives.

The pilot projects on Local Social Capital under Art. 6 of the ESF will experiment with a novel way of supporting small social initiatives emerging in the third sector. Some private foundations offer similar schemes, and the mechanism of Intermediary bodies and global grants exists in other areas of the Structural Funds. However it is a new approach for many member states. It is new in employment policy and it can contribute to introducing a dynamic of social capital creation at the local level that could otherwise remain untapped.

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Jussi Simpura

I first address a few general elements of the programme, and then move on to some comments from the Nordic or Scandinavian perspective in particular. But before beginning my more specific comments, one general remark. Understandably, the EU programme on local social capital is a political programme, and not a scientific experiment. This is clearly expressed in the wording of the programme, which reflects the rhetorical and also political shift from combatting exclusion to promoting inclusion through supporting employment. Of course, this is all very appropriate, as the EU is a political actor par excellence. If we wish to characterize the programme of local social capital in sociological terms, then the nearest counterpart would be the idea of sociological intervention, as applied in the tradition of action research. Indeed, the introduction of the key concept of the programme, that of Local Social Capital Intermediary Structures (LSCIS), is an intervention into existing structures and modes of action in many countries. It would be extremely interesting to learn from a comparative evaluation how this intervention has been met in different countries.

Local vs. "personal" and "overall" social capital

I first contrast the notion of "local social capital" with two other kinds of formulations, one of them being overall social capital, the other one something called "personal social capital" (Comparative Social Inclusion Policy in Europe 1998).

Isn't all social capital very "local" by nature? I think Dr. Loranca also stresses this point in his paper. The notion of social capital seems to be related very much to the idea of local community as the central context of economic and social life. Cohesion, then, would be related to the memberships in a local community. However, there may also be an aspect of social capital that is less directly related to the local community but more to general social and cultural cohesion. It may be that the USA and Italy, where Putnam first developed his theories on social capital, are "village societies" where the local community has a very important role. But equally it is possible that some other countries are much less "village societies" than assumed by the theorists of social capital.

There may also be other forms of cohesion that do not presuppose the local community as the basic institution. The Nordic countries, for instance, may appear as sites of weak locality but strong cultural cohesion. This is reflected in the fact that the word "community" is difficult to translate and use, in Swedish and Finnish at least, in any colloquial sense. Norway and Denmark, by contrast, may be much better examples of "local" communities, the former due to long traditions of geographic isolation and the latter thanks to its very peculiar history of local communities (municipalities) as key political arenas and actors balancing out the central power.

Still, there may be something in all countries that represents social capital in a non-local, general sense. At least the attempts to introduce social capital as a factor explaining differences in economic development between countries would presuppose a non-local, nationwide notion of social capital. In Finland, a prime example would be the common view of our neighbour Russia as a society of distrust: it is not only, and perhaps not primarily, local social capital that is the issue here, but a nation-wide phenomenon. It is interesting that Putnam's main work, the bible of social capital, has been translated in Russian, and that there is some Russian debate surrounding the concept. It remains to be seen how the Russian version of the concept of social capital will emerge.

The concept of "personal social capital" is a new one for me. I came across it by accident among one of the countless examples of 'grey' literature flourishing in EU research programmes. The interesting concept of personal social capital was discussed in a report of a TSER Thematic Research Project on Comparative Social Inclusion Policy in Europe. The concept relies on "three sets of personal social goods", namely recognition, income and work. In the political context of promoting social inclusions, the key component seems to be work, which is often a necessary prerequisite for creating both recognition and income. This comes very close to the project ideas presented by Dr. Loranca, and he is probably well informed of the ongoing research

work on personal social capital. Still, it may be asked what "local" means in this conceptualization of personal social capital, and how it relates to the concept of local social capital. The scarce literature I had at hand did not provide any clear-cut answers.

Creating civil society from above?

The programme of supporting Local Social Capital Intermediary Structures could be interpreted as an attempt to create civil society from above. This may seem paradoxical as the basic nature of the programme is to support bottom-up approaches. Again, there is nothing inappropriate here, as it is common practice both by national governments and international organizations to work from the top to activate people at the bottom. In this programme, the target group is on the bottom not only in terms of core vs. periphery, but also in the sense that a final goal is to include persons at risk of exclusion into a tighter community membership. The support for LSCIS is thus a means of strengthening local structures/local social capital so that this final goal can be better achieved.

The problem that may arise in a supra-national programme like this is that different countries have different histories. They have different social, cultural and political institutions, and different views on the third sector or the third system, and the programme of promoting local social capital must be flexible enough to adapt itself to these disparities. The task is reminiscent of developing social capital in the post-communist transitional Europe. A quotation from a report on such a project in Bosnia-Herzegovina may illustrate this point (Engberg and Stubbs 1999, 9-10):

The task for social development, then, probably becomes much less that of imposing a, literally, foreign notion of NGOs on an unsuspecting populace - any cursory examination of current trends, as we will note, seems as likely to produce less rather than more trust - and much more that of identifying what kinds of trust existed before and how these can be rebuilt.

Although conditions in the EU member countries are less dramatic than in Bosnia, it might be worthwhile considering the meeting of local traditions of social capital with the concept at least implicitly present in the Local Social Capital programme. I did not find much reference in this direction in Dr. Loranca's text.

Another remark based on the report from Bosnia-Herzegovina. In the experiment there, the goal was to promote social organizations of any kind, irrespective of their relevance from the point of view of, say, employment and production. Actually, the authors suggest that not only are non-profit organizations better than for-profit organizations at this task, but non-economic organizations work at least as well as civil organizations with clearcut economic goals. In the EU project on Local Social Capital, the forms of civil action to be supported have the quite direct and immediate goals of promoting employment and cohesion. When looked at from the general

perspective of social capital, the goals on cohesion at least could also be achieved with more indirect activities.

A state-penetrated civil society: a Nordic peculiarity or the future of EU Europe?

I finish my comments with an observation that, for me, seems important when discussing the role of the third sector, or the third system. In the Nordic countries, Sweden and Finland at least, it would be possible to characterize much of the activity of the third sector as representing a "state-penetrated civil society". This expression refers to the fact that the third sector did not emerge largely as an opposition to the state, but rather as an ally and even as its predecessor. So the expression has a positive tone in the sense that the state works in close collaboration with the third sector and often supports it financially, without questioning the independence of NGOs. But the expression also implicitly refers to the idea of the state as something good and supportive, and not something bad and repressive. Now, the programme of promoting local social capital with EU funds has many features of this "good state" approach, although it may be politically impossible to use such an expression in EU documents. This interpretation could greatly facilitate the introduction of the programme in traditional state-penetrated civil societies like Finland and Sweden. It remains to be seen whether the project of promoting local social capital also paves the way for the growth of state-penetrated civil societies elsewhere in the EU.

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Social Capital and Social Policy

Reijo Väärälä

Introduction

In the world of social policy, an issue very much in the spotlight these days is social responsibility. It features in discussions about the relationship between the individual and community, the role of the public sector, and sectoral power and incentives (welfare-workfare). Rose (1995) suggests that there has been an interruption in social thinking in recent years. The social dimension has traditionally been seen as an essential component in the construction of the welfare state. According to Rose (1995, 20) the social dimension arose in European political thinking in the 19th century. It implied the emergence of a "social" arena between the legal entity based on legal rights and the economic entity reflecting individual interests. Rose also suggests that the emergence of the welfare state has led to linkage between the social arena and the state. The family has gradually become a social entity, employment and the employment relationship have become social institutions, the spheres of civil society have become social spheres, cities have become institutions of social measures, and so forth. When analysing the present condition of the welfare state, Rose asks whether we can relate recent developments in it to the disintegration of the social aspect. Against this background I would like to challenge somewhat the concept of social capital and discuss more broadly the question of how, inter alia, the interruption in social thinking suggested by Rose is manifested in today's society.

Criticism of the welfare state has long focused on the strengthening role of the state and the restriction of individual autonomy. According to this argument, the control of the social spheres is suppressing individual aspirations. Another criticism is that the steering of the social arena by society, and especially by the state, deprives citizens of their individual initiative and makes them passive.

families. The social security system was to intervene only in the case of a temporary interruption in an employment relationship or other life situation. We can thus speak about a normal employment relationship as an anchor of life or as an "agreement". The concept of the normal employment relationship refers to the general principle adopted in industrial society concerning the form of an employment contract for paid work. At the same time, the normal employment relationship is also a societal concept, denoting in its deepest meaning the integration of work, basic income, way of life and values in our society.

c) The generation agreement

The third agreement that has created integration in our society is the generation agreement. This agreement has allowed us to promote integration between the various generations and age groups by constructing comprehensive pension insurance systems, societally produced child care and elderly care, as well as education systems for children and young people. People's obligation to take care of their parents has been replaced by a general societal "agreement", and in this connection the relationships between the generations and the related risks have acquired a societal nature. Thus we have established promises that maintain the cohesion and solidarity of society and permit in principle all generations to lead a secure life on equal terms with others, irrespective of differences between their starting levels. At the same time, we have sought to ensure the independence and autonomy of all generations, which has formed the basis of decent and autonomous living in all phases of life. The generation agreement has also been linked with the agreement on normal employment relationships: it has, *inter alia*, permitted greater mobilisation of the labour force by providing societally produced care of children and older people.

d) The gender agreement

The fourth agreement is the gender agreement, which in principle permits the two genders to participate in the societal division of labour on equal terms. As a result, e.g. Finnish women's participation in working life has risen to a level that is high even by international standards. This development has required undertakings by the state and municipalities to organise day care and education of children. It has also meant setting standards that promote equality in working life, as well as changes in income transfers and social security. This development has led to a new family structure and changed internal family relationships. In parallel with internal family cohesion is now each family member's individual world, which also contains an individual life independent of the family.

I have now described, partly at the level of ideals, the agreements created during the formative period of the welfare state in Finland. There is naturally no unanimous decision on how these agreements have been reached. Rather, history shows that the political approach described above has been the outcome of great conflicts and struggles. Whereas it has not been able

to prevent poverty, unemployment and exclusion, it has kept these phenomena at controllable and reasonable levels from the viewpoint of society as a whole. In terms of promoting of integration and preventing exclusion, these "agreements" have formed an ideological basis and a common legitimate foundation for creating cohesion in society. At the same time, they have complemented the economy and legal rights with an increasingly independent social dimension, able to regulate relationships between individuals and society on the one hand, and between individuals and social groups on the other. These agreements can be seen as core concepts of social capital in the sense suggested by Putnam (1993). If social capital consists of norms, networks and trust, the agreements dealt with above represent the social capital of the whole of society at the level of ideals.

The agreements reflecting the change in the social area can also be complemented by other "agreements". It might be useful to examine the whole spectrum of agreements, e.g. from the civil rights aspect, in order to form a more comprehensive picture. At this stage, however, I confine myself to the framework outlined above, since in my view the agreements included in it amount to anchors of the welfare society.

The changing basis of agreements

During the formative period of the welfare state, the agreements described above were based on economic growth and its redistribution. We can assume that factors related to economic growth and mobilisation of the labour force supported policies promoting societal integration and solidarity. On the other hand, the agreements considered here were part of the social thinking of the welfare society, and their durability as integrating principles was based on the independent ability of nation states to determine the direction of their economies and policies. The agreements also constituted part of the social capital that accrued during the post-war reconstruction period. The relatively vigorous economic growth would not have been possible without these agreements, which in fact created the basis for both genders' participation in working life. They also permitted the mobilisation of the large reserves of know-how based on education, and created very strong public finances and related services. To summarise, the economic growth made possible the agreements improving social integration, but without these agreements the economic growth would not have been possible. In other words, the social capital reflected by the agreements has been both a prerequisite for the economic growth and a result of it.

The challenges of the global economy are confronting the nation states and testing people's economic and social activities in new ways. In the discussion on exclusion it is important to analyse how the increasing global market dependence is reflected in the agreements surrounding the welfare state analysed above. We can at least assume that the opportunities of the national level to decide on the means to safeguard our well-being will narrow if the markets increasingly dominate the choices made by our society.

of the welfare state. The employment security for the rural people, the solidarity agreement, the generation agreement and the gender agreement were interweaved around the rural way of life, forming a combination that maintained family farms, villages, families and the social structure of the countryside. Thus, the social aspect of agricultural policies was based on national policies intended to increase cohesion and integrate the rural population into society. There was naturally some exclusion as well, but it could be kept at a tolerable level and under control.

Post-war housing policies were also strongly based on the idea of social production. Housing was regarded as one of the basic areas of the social sphere. Housing policies placed a strong emphasis on the promotion of housing for people with low income and for the socially underprivileged. Therefore, systems for loans and housing allowances were created in order to equalise housing costs and enhance socially integrating factors.

Post-war educational policies changed direction in the 1960s, in line with the notion of replacing the existing parallel school system with a comprehensive one. The subsegment reform was aimed at creating socially durable educational policies, which would - at least in principle - create new opportunities for social mobility. It was also designed to equalise the general differences between people's starting levels. Plans were also made to construct integrating structures at upper secondary level, but this stage of the school reform was never completed. It was intended that the previously elitist universities would become institutions for the masses drawing all reserves of talent in the country into the highest level of education as efficiently as possible. Educational policies were seen not only as closely connected with social policies, but also as part of the overall aim to create a uniform culture and an integrated nation.

During the construction of the welfare state, labour force policies were connected with the industrialisation of the country and the development of trades on the one hand, and with solving social questions on the other. The point of departure in labour force policies was full employment and mobilisation of all labour force resources in order to serve economic growth. According to Kuusi's thinking, labour force policies and social policies were closely interlinked. They had to guarantee the participation of all willing people in the labour market, as a last resort through public measures. Those unable to obtain work had to be guaranteed a basic income.

The points of departure of industrial policies could be examined in the same manner. Regional and transport policies were also based on national welfare state thinking.

The arrows in the figure denote the direction of social responsibility and indicate the contradictory pressures in opposite directions. On the one hand, welfare state thinking based on the tradition of modern society emphasises social responsibility within each political sector. On the other hand, the increasing dependence on competition in the global economy increases market dependence and thus also strengthens exclusive tendencies within the political sectors. Factors that are exclusive and non-integrating themselves

therefore arise within the political sectors. We can also assume that each political sector earlier formed part of preventive social policies in this respect.

The new pressures are particularly visible in the structural change of agriculture, where the recent basic trend is a move towards business and market dependence. Granberg (1996) says that abandoning national agricultural policies also meant abandoning the social dimension of agricultural policies and the policies of equalisation of income in agriculture on social grounds derived from welfare state thinking. The European integration process involves a change in the operating conditions of agriculture and an increase in social problems among the farm population. In reference to the figure it also means that the proactive social responsibility included in agricultural policies is being shifted towards the last-resort responsibility of social policies.

The comprehensive reform of education during the last few years has been a very contradictory process. It has included both the educational reform that started decades ago and some completely new trends and ideas. The changes in the nature of information, the revolutionary advances of information technology, the changes in the labour market, as well as globalisation and internationalisation are constantly presenting new challenges for national educational policies. The result is that education is being shifted towards a market where pupils are increasingly seen as clients making choices. In this respect, education meets the expectations of the individualised world. Educational institutions seem to be evolving into mutually competing suppliers or sellers of education services. Jukka Sarjala, Director General of the National Board of Education, asks among other things "whether we want to maintain a strong public school system in our country or whether we are to let the system split up into single educational units whose supply of teaching is determined by the demand of the pupils. In the latter case the pupil becomes a client who ponders whether to go shopping in a neighbourhood shop, specialised shop or warehouse. If the quality of the supply is too weak to *attract any* clients, the shop will be closed." (The leading article in *Spektri*, the journal of the National Board of Education, 19 Dec. 1997).

Differences and inequality between schools are growing. Some are loosening ties with their locality, while others choose or are compelled to be increasingly tightly bound to their environment (e.g. some schools in housing estates of poorer areas). The basic trend in educational policies now emphasises individual competition and success in the labour market more than equality, solidarity and social mobility. Thus the social political aspect of education, aimed at preventing exclusion and equalising starting levels, seems to be a weakening dimension in education policies, and increasingly confined to a specific social political sector. Preventive social policies in education are thus in danger of disintegrating, and thereby producing social problems which will be transferred to social workers, welfare officers, psychologists and the health sector generally (Simpura and Vaarala 1997, 5).

As the figure shows, the weakening support for social responsibility based on the social agreements within political sectors burdens the last-resort responsibility of social policies and threatens to marginalise social problems. Problems in the labour market, in the farm population, in housing and in education are increasingly dealt with in the social policy sector as exclusion issues. The individual's own responsibility as well as competition between individuals and population groups are increasingly emphasised in the various political sectors, in contrast to the earlier social responsibility, social rights and solidarity. In such a situation the gap between winners and losers cannot be closed any more. Thus, the essential elements of social capital are weakened.

Discussion of the increasingly burdened social policies has failed to produce any alternative models to satisfy the issues of social responsibility. In fact, demands to shift social responsibility back to individuals and their local communities are also increasing in the field of social policies. The paradox of this discussion lies in the agreements analysed above. The agreements of the welfare state have in principle never aimed to free people from their social obligations towards their communities. That the service systems in society are not always very active in the practical implementation of this responsibility is quite another matter. On the other hand, measures of support and activation have often been targeted at those population groups which do not themselves have resources for self-help. For instance, in substance abuse and drug policies, a more active responsibility has been required of families and local communities as educators, despite the fact that it is these institutions which have weakened most as educational communities as the structure of society has changed. To summarise, responsibility and activity are often required of those population groups which would need external aid the most. Thus, the elements, procedural rules, networks and trust of social capital do not seem to work well in circumstances where the agreements of the welfare state are replaced by market-oriented agreements and where people lose the resources to make independent decisions about their own lives.

Increasing pressures for change on the basis of the generation agreement

The generation agreement has become an important component of the welfare state. It has been connected with participation in work and also with education, pension policies, societal services and the division of societal caring work. In parallel with the generation agreement, our society requires of us more of our own responsibility - individual responsibility and individual insurance, e.g. in the field of pension policies, education and training. In this situation society plays a lesser role, competition between the generations intensifies and societal integration weakens. Changes in the labour market and the period of youth have, among other things, shed new light on the position of children and young people, as well as on parents' responsibility for the education and maintenance of their children. Youth researchers have suggested that, historically, 'youth' is a rather new phenomenon, which has

also changed many times in the past. Youth emerged on the threshold of industrialisation, after the prohibition of child labour, and led to the formation of the modern family, as well as a novel spell of inactivity between adulthood and childhood (Mäki-Kulmala 1993). At the present time we could propose a thesis that youth is being reborn as a new phenomenon, because new periods of inactivity are again emerging in the chain of childhood, youth and adulthood as a result of the changes in the labour market and education. Thus, we are facing a new kind of youth as a stage of life requiring new orientations and measures in our society.

The gender agreement is changing form

In the welfare state the state has been able to function as a kind of channel and instrument for women's equality aspirations. If the role of the state weakens, it will directly influence the structure of welfare services, which have been an important channel for women's participation in working life. Pressures for increased housework and emphasised responsibility of the family involve a change in women's position above all. The discussion about individual responsibility in care and caring is connected with the division of work between the genders. In practice the question is who will take care of children, as well as handicapped, sick and older people (cf. Julkunen 1992, 50-53).

Exclusion is changing form

The break-down of the agreements that integrate our society and improve its cohesion enhances the risks of exclusion and adds new features to it. On this basis we could therefore assume hypothetically that social capital is weakening. I do not claim that social capital is exactly the same as societal integration and cohesion, but the concepts are somewhat interrelated.

Unemployment seems to have become an extensive and permanent phenomenon weakening the basic income and inclusion of the population. Thus, unemployment does not only produce bare subsistence at the individual level; it also has extensive societal impacts. Problems that are relevant to exclusion are not only connected with threats of exclusion of individuals, but also with a more widespread weakening of societal cohesion. Uncertainty about paid work creates uncertainty in all areas of life dependent on paid work. For instance, the nature of housing policies changes when it becomes more difficult for individuals to meet loan commitments. The promises of full-time employment previously implicit in education are replaced by promises of placement in the labour market. This changes the motivational basis and nature of education.

Urban lifestyles and housing have introduced new vulnerability to exclusion. In urban culture, various forms of paid work are a prerequisite for basic income. For the majority of the population there is no realistic option to paid work or social security.

The individualisation of the urban, postmodern way of life has involved loosening connections within communities. For some people this has meant

a release from the close control of the local community, whereas others have experienced exclusion, increased helplessness and loneliness. Public measures designed to enhance connections within communities may or may not result in greater control at the individual level. Within families, for instance, individualisation has created increasingly contradictory impacts which can pull family members in different directions. From childhood onwards, each family member has an individualised life and world, and the combined power of the family cannot always create cohesion and security. In this respect the family in modern society is more vulnerable and fragmented than ever before. Those with sufficient resources experience cohesion and security in the family, while those without live in increasingly conflict-ridden families.

The nature of residential communities is changing along with society, with many contradictory tendencies occurring in our living environment. Migration to urban areas has entered a new stage, for example, and the fundamentals of urban housing are changing. In Finland, urban housing and the construction of residential communities have been based on the above-mentioned agreements and presumptions of the welfare state. Therefore, housing estates, for instance, were originally thought of as "leisure areas" for the employed labour force in industrial society. Now their significance is changing with the decline of the normal employment relationship. We are already seeing severe problems on some housing estates as unemployment accumulates from one generation to another.

Conclusion

As many of the changes described above are contradictory in nature, it is difficult to discern a single, unambiguous direction. It is, however, clear that these changes entail new risks and threats of exclusion. Some of these threats are connected with exclusion from work, and others with exclusion from a basic income or loss of inclusion. All of these threats are intrinsically connected with the reformulation of the agreements described above. On the other hand, in terms of the social capital concept, the question is how to prevent an interruption in social thinking and improve the cohesion and social agreements of communities and thus their social capital. Over the next few years, the central political challenges will be the following:

- a) How to link the ongoing economic reformulation with the changing social arena so that societal splits are prevented?
- b) How to identify those with social responsibility so that the preventive aspect of the welfare state is maintained and the central social agreements of the welfare state strengthened?
- c) How to construct new measures to prevent exclusion and protect against existing threats?

We could adopt the general principle that preventing exclusion in the welfare state cannot be based solely on defending the old structures. People live in new circumstances where global dependence and local life are interlinked.

It is important to create new social thinking to balance future plans based exclusively on economic thinking. At the level of principles, prevention of exclusion is still anchored in two central arguments: a) basic agreements and their related forms of social security and services must be developed, and b) the changing structures of people's immediate and nearby communities must be supported. Instead of merely defending the established welfare state structures, the social capital supported by these structures must be developed so as to meet the new conditions of the internationalising and otherwise evolving community.

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Social Capital: The Concept and Its Problems

Kaj Ilmonen

Since the days of Adam Smith and David Ricardo, economic welfare has been assessed in economics in terms of natural resources, i.e. land ownership and economic capital. The progress of industrialization and technological development in the 1900s has made clear that the growth of national wealth does not rest exclusively on the amount and quality of natural resources. Nor does it depend solely on capital and the different ways of investing it in various sectors, but also on workers' individual professional skills and their improvement. Articles discussing human capital, skills and education as significant boosters of national wealth began to appear in the 1950s and 1960s.

It has undoubtedly proved worthwhile to focus on workers' unused professional skills and what bearing this disuse has on production growth. Focusing on individuals has, however, been the weakness of this approach, as the ways of organising work, and work relations in general, have been brushed aside, despite their growing importance in the globalization of the economy. It has even been claimed that they play a specially decisive role in the pursuit of a competitive edge. It is thus understandable that the World Bank in particular has targeted the micro-level economic cooperation both within and between organizations. Such bonds have become known as social capital (see Hjerppe 1997; Woolcott 1998), a notion that has gained increasing attention in the 1990s. This article, too, focuses on social capital.

I begin my review by defining social capital and explaining why it has become so popular in the 1990s that it is now regarded - along with the "Third Sector" - as a "wonder concept" ("Wunderbegriff"), and the solution to any current problems. Later I examine the background of the concept of social capital. Then I present Robert Putnam's study on social capital. I also weigh the weaknesses in his frame of reference and concentrate on one of the

central elements of social capital: trust. Lastly, I attempt to estimate where the concept of social capital is fruitful and where it seems to hold more promise than the discussions in institutional economics would suggest.

The topicality of social capital

In his archeology of knowledge, Michel Foucault discusses how new types of knowledge and concepts have created their own realities. They have not done so in a social vacuum, though. The new types of knowledge have developed simultaneously with the visible changes in the environment (especially in its modes of operation), and have provided an interpretation for these changes. An interpretation always has its supporters (a social or professional group, a religious sect, a social class, etc.), whose world view and ideology colour the interpretation and thereby the shaping of new forms of knowledge (Foucault 1997; Deleuze 1990, 103-108).

The concept of social capital ties in with the new interpretations about the current changes in the visible environment. Although having a multiphasic background, the concept has taken shape only recently. Almost magically, it seems to offer solutions to problems that arise when old social structures crumble. However, social capital is a tricky and complex notion, like so many other "promising" concepts. Frequently it encompasses three elements. The first element includes a) social networks and the ways in which they are organized. These represent the formal side of the concept. Besides this, social capital has a substantial component that aligns it closely with the concept of an institution in institutional economics (e.g. North 1990). Social networks are thought to hold together due to b) the trust that the members have towards one another, and c) the normative rules and reciprocal expectations connected to that trust (e.g. Putnam 1993, 167-176). A social network and the confidential relations connected to it are thought to provide capital or, as Pierre Bourdieu puts it, a resource for its members that can be moved around by the members, either individually or together if need be (1986).

However, social capital is not like economic capital, since it cannot be separated from its supporters and the relations between them. In this respect social capital is not as easily movable as economic capital. Nor can it be invested, in the true sense of the word, to increase its value. Despite these "flaws" the concept of social capital attracts attention. Why is that? There are several reasons. I mention only a few topical elements here, one of which is doubtless the strong comeback of economic liberalism to both economic and socio-political discourses in the 1980s. The reform of working life and the diminishing economic leeway of the nation-state have both, in turn, paved the way for the return of liberalism. Underlying this development one can also see the processes implicit in the concept of post-industrial society - the erosion of traditional communities and social classes, as well as the consequent sociophilosophical discourse on the characteristics of a good society (see Ilmonen 1998b). Many of these discussions date back to the

fragmentation of the feudal society and are linked to names like Thomas Hobbes and John Locke.¹

At least two of the more recent changes in working life are clearly connected with the concept of social capital. First, the globalization of the economy has forced businesses operating in the global market to reconsider their production regimes. They are abandoning the old Fordian course of action in favour of a new system of networks that underlines the importance of flexibility. As a result, old hierarchical organizations based on supply have been dismantled while some of the less important activities have been externalized and dispersed around the global village. Work based on core skills is being transformed into a client-centered activity based on teamwork, and both the designing and testing of actual products have largely been turned over to information technology. The Fordian mode has been replaced here by global economic networks where not only are goods produced but also, courtesy of the fictional economy (bonds, currency, etc.), fast earnings are cashed in (Castells 1996; Martin and Schuman 1997).

Secondly, due to externalized operations in businesses and a flexible economy based on networks, reliable jobs have become a rarity. This unstable world continually reshaping itself implies increased risks and a constant need to change jobs. In this process the social world is being divided anew into winners and losers. Losers seem to be withdrawing into solitude and shame or looking for a new identity in the old (religious) communities (Sennett 1998, 134-). Becoming or being a winner entails belonging to networks of social relations that help reduce risks. Several studies have concluded that the people who find work are those who have wide social networks to back them up. The long-term unemployed, on the other hand, lack such networks altogether, or those they have disintegrate eventually (Kortteinen and Tuomikoski 1998).

Another obvious element that has helped popularize the concept of social capital may well be the discourse sparked by neo-liberalism surrounding the role of the welfare state. In this discussion the welfare state has been redefined as harmful rather than positive. Thus the safety net for paid labour provided by the state, which was formerly perceived as a positive thing, has become an economic burden and a bureaucratic control mechanism which stresses only citizens' rights instead of their duties (Ilmonen 1993, 58). In political rhetoric it has subsequently been easy to transfer responsibilities from the state to citizens and to the social networks of civil society (Culpitt 1992, 16). The idea has been to return to the grass-roots level of solidarity (cf. Benhabib 1992), that is, to the unused social capital potentially found in civil society. Proving the existence of such unused social capital is no easy

¹ It is exciting to notice that during the economic liberalism of the 1980s and 1990s the same themes have been topicalized that were brought up by John Locke, the central source of inspiration for liberalism, when he took a stance against a strong monarchy and state. Wanting to make sure that private ownership would have a legal position in relation to the state, he nominated "political society", i.e. civil society, as a guarantee of that. By "political society" he meant the orderly aspect of civil society (Locke 1996, 117-119).

task, however, and several studies have been undertaken to trace it. So far the results have not been particularly encouraging (see Mathies, Kotakari and Nylund 1996), though this is hardly surprising. Talk of transferring the duties of the welfare state to civil society has overlooked the fact that a variety of associations, organisations, etc have flourished with the aid of the welfare state. Such suggestions would mean turning the clock back. In a country like Finland this would involve returning to the pre-war situation, when we still had a strong local sense of community and social networks were based on families and relatives.

The third cluster of elements that have made social capital topical includes the gradual weakening of the old familial and other connections, individualization, urbanization and the growth of social differentiation, which have forced people to interact increasingly with strangers. Because of these long-term processes that began as early as the 1500s, permanent behavioural models, e.g. those based on fixed roles, have changed. Other people's actions can no longer be anticipated based on those models: they have become unpredictable. This is especially true of strangers, the "others", whose cultural rules of behaviour are totally unknown. The resulting dilemma can only be solved by trusting others. This entails taking a big risk, though, because the "social matrix" is increasingly antithetical to trust, as observed by A. Seligman (1997, 160). This is one of the central paradoxes of modern society.

Allied to the above paradox is the fact that these days people are required not only to trust others in a situation where this has become ever more risky, but also to trust social institutions. It is well accepted that trust and its social consequence - the bestowal of legitimacy - have been tested hard during the last decade. In Finland and elsewhere people have begun to be ever more suspicious of political parties and political and economic elites (see Martikainen and Yrjönen 1991; Ruostetsaari 1992). It is no wonder, then, that political parties have started to champion strengthening of the family and "good communality". The dividing line in this rhetoric is between neo-liberals and communitarians. The former stress the individual and especially his or her rights and political autonomy. The communitarians, on the other hand, are concerned about the foundations and consequences of that kind of morality. They point out that people are not autonomous actors; they have their own historical backgrounds and social ties, but do not guarantee morally sound behaviour. It is easier to assume that underscoring rights in practice amounts to bestowing legitimacy on the privileges of the strong. The neo-liberals, in turn, see that the "good communality" advocated by the communitarians is actually a return to the old social ties, the idealized "Gemeinschaft", and moral identity. It is hard to reconcile this with the present way of life, and bad experiences of it can be found in the recent past. Zygmunt Bauman goes further in suggesting that strong communality and morality based on obligation equals "a long march towards prison" (Bauman 1996, 35; see also Kotkavirta 1998, 89-90).

The neo-liberals and communitarians seem to be having a hard time finding common ground in their political and moral battle. There is one thing they seem to be able to agree on, however: the state must not be given a significant role in the running of social affairs; the duties of the state should rather be handed over to self-guided associations (the communitarian view) or to autonomous individuals (the neo-liberal view).

In conclusion, the concept of social capital has become more prominent as a result of neo-liberal political and economic thought. It is believed to open up possibilities for diminishing the duties of the state, yet is not seen as a solution to the problems created by the dismantling of the welfare state and privatising public services. The concept of social capital is also seen to have conservative qualities, a return to the old society based on obligation, especially if it is linked to communitarian thinking. On the other hand, social capital appears to have positive attributes, too. The modern economy is seen to exist as a collection of networks, and an individual can only emerge as a winner in the new economic order if he or she belongs to a network (Castells 1996, 168-200).

Some background to the concept of social capital

The concept of networking provides a clue to what discourse within the social sciences the notion of social capital belongs. Prior to discussions about the influence of human capital on economic growth, attention was directed at how such capital was organized, and how its means of organization affected the economic productivity of businesses. Over two centuries ago, in his treatise "An Inquiry into the Nature and Causes of the Wealth of Nations" (1776, transl. 1933), Smith put forward his soundest – from a modern viewpoint – idea that the division of labour, in particular, on the national level and in businesses increases the productivity of work. He gives an example of the latter in his famous story of pin production, which becomes more efficient as soon as different people start performing the individual stages of pin-making instead of just one person doing so from start to finish (1933, 7). However, according to Smith, the extent to which the division of labour can be achieved in a given society depends on the size of the market (*ibid.*, 23-28). Smith argued strongly for the market because, after all, it is the expansion of the market that makes it possible to increase the effectiveness of the economy on the business level.

Smith's reasoning lacks an empirical foundation, and it was later revealed as skilful speculation. Smith admitted that pins, as well as other commodities, were in his day mostly handmade; they began to be produced industrially only in the 1800s (Brown 1996, 118). Despite this, Smith's ideas about the division of labour, both in businesses and on the level of society, have had far-reaching consequences. They later found their way into the classic works of economics and sociology. Karl Marx, among others, used them, when he noted that workers of the same rank in the division of labour were in the best position to share similar experiences and feel solidarity towards one another.

Marx stated that without solidarity, particularly those caught in structurally weak positions are unable to improve their situation; they cannot achieve that goal alone, except on rare occasions. Marx concluded that it was thus more sensible for them to act collectively, without shortsighted pursuit of personal gain. This can only be achieved if people's solidarity towards others in a similar position is strong enough. This, in turn, means that those who work in adverse conditions need to trust each other.

Naturally, trust does not come out of thin air even when people live in roughly similar conditions. Even if they find themselves in structurally similar social positions, it is by no means automatic that they trust or feel solidarity towards one another. Marx realized this too, when he stressed that it was possible to gain international solidarity only through political means. He had the right insight, but his solution was wrong. Trust cannot be bestowed on people, as it were, from above; instead, they need to engage in concrete interaction with each other. Later, Georg Simmel focused on the same issue. He emphasized the importance of reciprocity and the expectations of "fairness" connected with it as strengtheners of social interaction and creators of trust.

Simmel's idea of the fairness of reciprocity ties him to a discursive tradition whose intellectual roots are found in the economic and political framework of the 1600s. Relations between the economy and politics were currently being reformed as they broke free of the grip of local and family communities following urbanization and the expansion of the market economy. The autonomous individual was placed at the centre of an economic exchange, instead of the family. Family honour no longer bounds the individual, who instead became morally responsible for his own choices (Seligman 1997, 53). A good expression of this novel source of economic operation revolving around the individual was the principle of *Caveat Emptor*, which was introduced at the beginning of the 17th century and is still widely in use. When two parties, A and B, make an agreement, this principle frees party A from all responsibility regarding the future conditions of their agreement (ibid., 87). Thus, if a deal was arranged on credit, which was already a common practice in those days, and the parties had agreed that the payment be made in a particular foreign currency, the seller had to assume the risk of a possible decrease in currency rates (this is how it is even today). The seller could not be confident that the sense of honour of the buyer's family would guarantee the potential loss to be shared between the parties.

As the family or local community no longer provided guarantees for the validity of the moral code governing people's interaction, a new and strange situation emerged. The *Ego* could no longer decipher with certainty the moral code on which the *Alter* was acting. All the *Ego* could do was trust the *Alter*. This situation spawned a long-lasting period of reflection in the field of politics, initiated by Puffendorf and Grotius and continued by Locke, Hume and Kant. Their reflections led to keeping promises becoming the central idea in the theory of politics, and friendship becoming an important theme in the moral philosophy of the 18th century (Seligman 1997, 14–15, 33;

Misztal 1996, 28). Keeping promises and friendship were not separate entities in the philosophers' view; trust connected them. A central prerequisite of friendship was keeping promises, and therefore a friend was especially trustworthy. Friendship became in this instance a prime example of a relationship of trust. The relationship of trust, in turn, was later to become a central ingredient of social capital.

The other ingredients of social capital, social networks and the norms of reciprocity in social exchange, entered the mainly sociological discussion almost by accident. The notions about the division of labour were later transferred from the classic works of economics and sociology to managerial thinking, and this led to Taylorian applications under the umbrella term "scientific business management". However, the writings disregarded the discourse on solidarity initiated by Marx, as well as Simmel's ideas on the fairness of exchange, and earlier philosophers' views of trust. In managerial texts and organizational theories the work organization was rather seen as a form of rational machinery the effective functioning of which entailed separating planning from execution. As a result of this separation, executors very often had to deal with tasks handed to them by a small number of planners with means that felt alien to the executors.

Setting goals on the managerial level without prior discussion with employees went against the principle of trust. Providing means from above, in turn, eroded the principle of fairness. Thus, it was no wonder that executors started to resist the system. The resistance was not always organized and actively striving towards formal goals. On the contrary, it was often unplanned, passive resistance that was also hard to break. It was rooted in the unofficial personal relations of the workplace. These relations, in turn, were made up of small groups known as "cliques", "clusters", etc. Inside firms the "cliques" and other similar small groups created unofficial networks of relations alongside the formal organisation. These networks were governed by norms that differed from the official norms of the firm. The maintenance of these networks was based on the mutual interaction and trust between their members. The identification of the existence of these unofficial networks within firms made it into the history of social research in the Hawthorn studies undertaken in the Western Electric Company in Chicago.

European anthropology and sociology provided an intellectual background for the Hawthorn studies. The theoretical lineage goes from Emile Durkheim to A. R. Radcliffe-Brown, who significantly influenced especially W. Lloyd Warner's sociological views and his famous study *Yankee City* (Chicago). Warner worked with an Austrian-born psychologist E. Mayo. They were mainly interested in small groups and their informal relations, seeking to explain the findings of the Hawthorne studies on the basis of Durkheim's theory of collective consciousness and Vilfredo Pareto's circulation theory of elites.

Interest in social networks was rekindled through another tradition of thought, too. In his formal sociology Simmel had already drawn attention to the change that occurs in a romantic relationship when a third party enters

the picture. Different control games become possible and the flow of information grows less smooth. Simmel concluded that in triadic social networks (and other, more complicated ones) social exchange must be reciprocal and fulfil normative expectations in order to prevent the network from crumbling (1908, 6–20; Wolfe 1990, 145–161; Woolcock 1998, 160–161). J. Moreno, among others, later used Simmel's ideas to his own advantage when he connected them, in accordance with his own therapeutic orientation, to European Gestalt psychology. Bringing together these two sources led Moreno to view a small group as a "social configuration" based on attraction, rejection, mutual choices, friendship, trust, etc. (Eskola 1971, 121–122). The reasoning of Mayo, Moreno and K. Lewin, who also dealt with similar topics, had a lot to offer to later socio-psychological research on small groups (Secord and Backman 1964, 252–253; Eskola 1971, 137–139; Scott 1991, 12–13), which was important to the analysis of social networks and their inner norms.

However, the concept of social capital was not yet applied in socio-psychological studies of group dynamics any more than in the network analysis that had its origins in the work of Moreno and Lewin. Nevertheless, the notion of trust was important in them, too. The concept of social capital did not begin to take shape until the 1970s and 1980s, with the groundbreaking works of Pierre Bourdieu and M. Granovetter.

In his renowned work "La Distinction" (1979) Bourdieu introduced different types of capital. He wrote about economic, cultural and social capital, but he concentrated on the distribution of economic and cultural capital in France. Based on his findings he created, like Lewin, social spaces into which the French social classes could be placed. The creation of social spaces in the Bourdieusque analysis suggested that the concepts of economic and cultural capital in themselves implied the concept of social capital. They constituted the basis for the formation of social spaces in which taste and economic capital tied the members of especially the elite and middle classes together within their respective class boundaries (see also Bourdieu 1985).

Later Bourdieu sought to clarify the concept of social capital, suggesting it to be a collection of existing and possible resources to some extent linked to having institutionalized relations, acquaintances, and knowing people (1986, 248). These networks of acquaintances form a collectively controlled capital that can be utilized immediately or over time. The period must not be too long, though, since social capital may fade away unused if reciprocity vanishes. Thus it must be cherished constantly through "pure" sociality (Simmel) and social exchange (Bourdieu 1986, 249–250).

Whereas Bourdieu owes a lot to Marx, Weber and even Simmel, Granovetter based his writings on a different theoretical tradition. In 1973 he published an important article in which he tried to solve the grassroots and overall problems of transfer in society with the help of sociometry. He divided social networks into those with strong ties and those with weak ties. The former describe, in modern terms, great social capital. However, they are clusters of similar people who know each other. There is no problem of trust in those

clusters, since the members' commitment to their cluster is strong (*ibid.*, 1362). However, this is only one side of the matter. On its downside lurks a chance that the cluster is very exclusive and thus fails to connect its members to wider social circles. Social networks with weak ties do not suffer from this hindrance. On the contrary, they can span long social distances and connect their individual members with society as a whole (*ibid.*, 1369, 1377–1378). Thus, Granovetter suggests in modern terms that social networks with weak social ties are actually the ones that can integrate their members into society, rather than those with strong social capital. Social networks with weak ties have their problems, too; the problem of trust is constantly present.

Granovetter's notions on strong and weak social ties are known as the Granovetter Hypothesis. But although he regarded it as only a "fragment of a theory" (*ibid.* 1378), more was to come. In 1985 he published his groundbreaking article "Economic and Social Structure: The Problem of Embeddedness", in the wake of which the discussion about social capital truly began. In this article Granovetter leans on K. Polanyi's research on "moral economy" and tries to prove that the labour market, for instance, is not functioning on rational choices but is rather embedded in existing, and sometimes weak, social relations and trust (1992, 58–63).

Granovetter does not yet employ the concept of social capital in his article, though. It was introduced later into Anglo-Saxon sociology by J. Coleman, whose thinking depended heavily on the institutional theory of the economy. In his article "Social Capital in the Creation of Human Capital" (1988) he observed how the reasons for a person dropping out of school were further divided into smaller elements. The primary elements were economic, human and social capital. Economic capital refers to the family's means of paying for their children's education, while human capital was connected with Bourdieu's cultural capital relating to the parents' educational background. Coleman, in turn, connected social capital with the strength of interaction inside the family and with the community in which it lived (*ibid.* 110, 113). Based on his observations, he suggested that if social ties were weak, the child's success in school was poor, and vice versa.

Coleman may have been responsible for slipping the concept of social capital into the sociological discussion that favoured individual-centered, rational choices. However, it can be said that R. Putnam stabilized its position, although he stressed the collective side of the concept. In 1993 he published the results of his ten-year project in "How to Make Democracy Work", in which he compares Northern Italy with Southern Italy. He suggests that Northern Italy fares better economically than Southern Italy precisely because the former has more social capital than the latter. What he, like Coleman, means is that the former is characterized by long-lasting social networks (societies, self-help organizations, etc.). The members of those networks have been tied together by mutual trust and norms of reciprocity.

Since Putnam, numerous sociological articles have been published on social capital. Next, however, I concentrate on Putnam's theoretical framework and the central findings of his study.

Robert Putnam and social capital

Although there are several ways of thinking, and social practices, that have made the concept of social capital increasingly topical, they cannot be unproblematically transformed into the notion of social capital or into a scientific discourse based on it. They must first be translated into scientific language. This usually presupposes a set of concepts based on pre-existing theoretical formulations and research carried out using those concepts. Robert Putnam's book "Democracy" is significant in this respect.

Putnam's basic question is what circumstances are best suited to support the creation of a strong representative (political) institution (1993, 6). He begins to unravel this question with the help of two basic assumptions about institutional economics. The first is that every institution has its social implications, which shape the politics. The other, in turn, postulates that institutions themselves are products of historical development (*ibid.*, 7-8). However, these are, according to Putnam, insufficient assumptions. They link institutions into diachronic time only. In addition, an intermediary assumption about synchronic time is needed, according to which the performances of institutions must be judged in their respective social contexts. This starting point, however, is too broad and self-evident to promote further research. A mere reference to a topical social or other kind of context is not enough. Furthermore, it must be demonstrated what it is that makes the context crucial. It must be discovered which element of the social context has the greatest bearing on the performance of an institution.

To answer the question posed above, the performance of an institution must be defined first. Putnam sees it as a simple chain following the principles of implementation theory (executive theory). The chain goes as follows: social demands-political interaction-government-choice of policy-implementation (*ibid.*, 9; see also Bacharach 1977). Once performance has been defined, the context must be clarified further. Putnam, like other "institutionalists", regards economic environment and political tradition as the central factors in it (*ibid.*, 10). (Putnam does not explain why precisely these are the central factors.) To examine these factors, Putnam compares Northern Italy to Southern Italy. This comparison is an historical one in which Northern Italy as a civil society has for long been in many ways stronger or "more civic" than its Southern counterpart. This observation makes the comparison meaningful and leads Putnam to two common conclusions. The first is that regional government is the more efficient, the more civic the social environment is (*ibid.*, 98). The other generalization is that a region is the wealthier, the more civic it is. The accuracy of the latter conclusion was confirmed by standardizing the political and economic factors statistically, which led to a loss of their explanatory power. Thus, only the level of civilization remained (*ibid.*, 157), and it alone sufficed to explain the growth of economic wealth, too.

From his empirical generalizations Putnam arrived at two slightly broader theoretical conclusions:

1) When civil society is strong, or "civic", the market functions better than it otherwise would (1993, 181). This way he managed to confirm the idea in institutional economics that the economy is not an island apart from other social activities but instead leans on existing social structures, institutional arrangements and the trust created by them.

2) When civil society is strong, even the state functions better (*ibid.*, 98, 173, 181). So Putnam proposes that social capital is necessary for the smooth functioning of both government policies and the economy. These generalizations are Putnam's answers to the politically loaded debate over the supremacy of either markets or hierarchies. According to him, neither of them functions well unless there is a third, Simmelian (Noro 1991), intermediary factor: a civilized civil society. The views about the antagonism of the market and the state cherished by neo-liberals and real socialism are, therefore, false. Both must be fitted into civil society, whose nature over time will decide how the relationship between the market and the state comes to be shaped.

In other words, Putnam's view is that it is exactly the high degree of civilization in civil society that secures the smooth functioning of the market and the *polis*, since "civilization" guarantees social order and the unhindered functioning of society. Putnam admits, naturally, that social order can be maintained even in such uncivilized conditions where strong hierarchical dependence and exploitation are prevalent (1993, 180). But the market and the state do not function in such a situation without friction. Social order alone is not a sufficient guarantee of the fluency of the economy and politics. The reason for this, according to Putnam, is that a society based on a non-civilized social order is built on a network of dependence and abuse typical of a feudal clan system, that is on patronage or a master-and-servant relationship. Conforming to it is sensible since the obedience towards superiors required in patronage is rewarded by handing down tasks and supporting "subordinates" in other ways too. However, carrying out the received tasks requires unconditional loyalty towards the clan. Because all clans function in the same way, no one has any reasons to trust anyone but the members of their own clan. This type of thinking is quite typical of Southern Italy. Following another researcher of Italian life, E.C. Banfield, Putnam calls that mode of operation amoral familism (1993, 144; Banfield 1958).

Amorality does not indicate a lack of morality but a special moral code. Its rule of thumb is syllogistic: Always put your own and your family's interest first, since others do likewise. Unless you do this, you will be deceived. Thus, guard your own interests (Putnam 1993, 88)! This is rational short-term action, since everyone does likewise. In the long run, however, this mode of action leads to a situation described by Thomas Hobbes: perhaps not to "everyone's war against everyone else" but to a battle among families over spheres of interest. Another problem with amoral familism is that mistrust

towards other families, and towards anyone outside one's own family in general, limits economic and other transactions in the modern world considerably, as has been demonstrated in studies on immigrants (see Misztal 1996, 88). Economic and social activity turn inwards and promote the development of ghettos in cities. The third problem with amoral familism is that it feeds on itself (Putnam 1993, 88). This is not only true of the economy but also of the realm of politics, where hierarchically made decisions are seen as guarding the interests of clans and are thus not legitimate in the eyes of others.

The other extreme in Putnam's division, civic society, is marked by the existence of social networks of reciprocity and trust. As an example he mentions the "popular sociability" that developed in 19th century France and that became more common in Northern Italy, too, in the late 19th century. It was characterized by mutual aid organizations, trade organizations, credit institutions² and the voluntary work institution ("aiutarella"), etc. (1993, 139). These and other reciprocal social networks formed the welfare state of the time (ibid., 199). Their existence strengthened, in Putnam's opinion, the mutual trust of the population. That, in turn, required not the feudal, hierarchical structures of oppression, but strengthening of equality and common participation (ibid., 104-105), both of which amplify the moral preconditions for crossing family and other group barriers.

In addition to more frequent participation and equality, the reciprocity of social exchange and cooperation are important in "popular sociability", because the participants form networks and are able to shape the norms governing their lives through them. Another advantage of reciprocity is that it makes it easy to punish and expel those who break the norms (1993, 166; see also Coleman 1988, 106-107). This naturally strengthens the norm-based feeling of community that is another cornerstone of social capital. Its third basic element is the trust shared by the members of the network of reciprocity. Putnam regards this as the most important element of social capital (1993, 170). Trust may well be a strategic ingredient of social capital because it is the one that turns social capital into a self-sustaining system. Trust creates cooperation; it makes the coordination of functions and communication easier. These, in turn, strengthen the norms of reciprocity that, again, strengthen the feeling of community and shared identity, which further fortifies mutual trust among the members. The trust is the stronger the longer there has been reciprocal interaction between the members and the more exclusive is the network of reciprocity (cf. Coleman 1988, 106-107; North 1990; Putnam 1993, 167 and 1995, 67).

According to Putnam, there are two kinds of reciprocal interaction or social exchange: "balanced" and "generalized". The former refers to a simultaneous exchange of equally valuable performances. In the modern world this is a

² In mainland Europe foreign trade was already conducted through credit at the beginning of the first millennium. The word "credit" derives from the Latin "credere", which means to trust, to have faith.

comparatively rare form of exchange, and as such it does not necessarily require trust. The latter, in turn, refers to a noncoincident social exchange that creates expectations of reciprocity. It is essentially based on trust, since it presupposes that a given favour will be returned in the future. This kind of expectation requires restraint from the short-sighted pursuit of personal interests and an investment in long-term delayed advantages (1993, 172).

Naturally, trust is not created in a vacuum but shaped only through familiarity secured by mutual interaction. Interaction yields information about the other person, about his or her trustworthiness, and ensures that the other person receives the conveyed information. Spreading of information in a social network and the reputation that it conveys about the other members of the network are important social commodities that strengthen social capital (see also Diani 1997, 129).³ Without social networks, spreading the reputation of their members and the trust based on it would be much harder, since both are underrated as collective commodities in society (Olivier 1984, 608-609). Neither can be brought about without the help of others. Forcing trust on others is as futile as trying to force oneself to fall asleep; if the parties involved decide to mistrust someone, that state of affairs cannot be changed with orders or flattery. Trust must be rather earned indirectly by acting in ways that generate it. Trust and good reputation are in a sense "by-products" (see also Coleman 1988, 118). This is one of the pitfalls of trust and, at the same time, of social capital as a whole.

Despite these complications, it is fair to say that social capital is created in communities characterized by trust and the norms of reciprocity. They are Putnam's civilised communities, i.e. communities with strong moral resources. It should be pointed out, though, that these resources do not always serve only the values approved by the majority, as Putnam wants us to believe by his term "civilized". Organized crime is also based on unofficial social networks governed by tight moral codes, and where trust prevails among members. In any case, regardless of the ends social capital is used towards, it still cannot necessarily be spent like economic capital. Indeed, it can even grow when its consumption intensifies cooperation and creates a spirit of communality among participants (Putnam 1993, 171). However, there is possibly a limit to the amount of social capital gathered into a social network that one party alone can consume. Only a lack of consumption will exhaust social capital (Putnam 1993, 169), because as social interaction fades, trust can no longer be strengthened. To preserve social capital, it must, not unlike economic capital, be kept in motion.

When social capital is in motion, it feeds on itself. This strengthening of social capital takes place, according to Putnam, mainly indirectly: First, a betrayal of trust increases the potential costs in individual transactions.

³ It should be borne in mind that spreading information in a social network is not just an altruistic collective service for the benefit of the other members of the network. Information can also be distributed to forward the distributor's own personal ends (Coleman 1988, 117). If those personal ends are uncovered, suspicion, which weakens trust, will arise in the social network.

Second, a social network sustains the existing norm of reciprocity. Third, its existence makes communication easier and improves the flow of information. Fourth, previous successful instances of cooperation, which strengthen the members' faith in its possibilities, accumulate in the networks (Putnam 1993, 173-174).

All in all, Putnam suggests that social capital is an emergent phenomenon that follows this pattern: social networks - norms of reciprocity - trust - social networks. This pattern as a whole defines a civilized community. Thus, according to Putnam, social capital does not solely support the economy and credible politics but is rather a counterpart of a social contract. It is based on legitimacy and morality rather than legal criteria, which coincide precisely with Durkheim's notion when he discusses the noncontractual element of a contract (1990, 71, 255-257).

A critique of social capital and Putman

Putnam's project is currently in political demand, being connected to the tug-of-war between neo-liberals and communitarians. Right after the publication of his book "Democracy", Putnam took part in the debate and sided strongly with the communitarians (Favell 1998, 222). He stresses how fortunate those who live in a civilized community are (1993, 113). At the same time he frets over the considerable decay that has occurred in the social capital accumulated by American society over the past few decades (1995, 73). He believes that this development will weaken the integration of American society as a whole. In clinging to this belief Putnam brushes aside the Granovetter Hypothesis without mention. This hypothesis postulates that it is not the disintegration of strong ties but of the loose ones that are fatal to social integration.

Putnam's stance has its notable predecessors, however. The first, Tocqueville, was followed by Gabriel Almond and Sidney Verba, and more recently by Roger Brubaker and Willy Kymlicka. All agree that social and political integration on a macro level can only succeed in a universal, civilized culture, i.e. is in one characterized by, in Putnam's terms, strong social capital (*ibid.*, 214).

Putnam does not deal with national political culture as such but makes it clear that expanding the civilized community to the macro level would bring about a "good" (i.e. highly integrated) society. Here he returns to the ideas of Talcott Parsons and Emile Durkheim, who were convinced that a uniformity of norms and values forms the basis for the functioning of a liberal democracy. Sharing norms and values provides vitality for social capital and accelerates its accumulation. The accumulated social capital, in turn, helps overcome the constant threat posed by the individualistic pursuit of personal gain. This viewpoint includes an implicit normative emphasis. Putnam tries to negate Thomas Hobbes's solution to the personal gain dilemma, just as the communitarians and their predecessors did. Social capital (or a civilized community) is an alternative to a strong state, a mechanism that balances the unrestrained pursuit of personal gain (Favell 1998, 219).

In Putnamian thought, and other schools of thought based on the concept of social capital, the political dilemma is not caused by the state acting as a regulator but by the strengthening of communality in the civil society. The Parsonian communal values and norms cannot be perceived as the binding force behind the civil society, though. It is impossible to reach such communality in multi-cultural surroundings, especially if the various groups do not even seek common values (Putnam 1993, 175; Favell 1998, 223). Thus, the message of Putnam's research is that a common value system is no solution to the Hobbesian problem of "everyone's war against everyone else". The solution is rather trust and, overall, a civilized community characterized by varied social networks and values. But what should be done now that, as Putnam claims, even networks (associations) are shattering (1995, 67-68)?

In order to resolve the question posed above, it is not right to tie normative (i.e. political) assumptions and explanatory factors together, as Putnam has done. Neither should normative assumptions be taken as given. Civilized communities can be like religious sects, oppressive traps, "ventilated nightmares" (Henry Miller) with no exits. In addition, they may try to utilize less civilized means to subdue other small communities, as happened in the former Soviet Union and the Balkans. A completely different perspective, then, is that the state, especially the welfare state, and its expansion are not enemies of the civilized community. Historically, they have rather taken shape together in symbiosis, as Putnam too has later acknowledged. On the other hand, he has never promoted an intervention by the state into civil society in order to strengthen it (see Woolcock 1998, 157).

Social capital encompasses - at least in the Putnamian usage of the term - strong normative assumptions, and is in this respect a problematic concept. The latter part of the concept may mislead an inattentive reader, too. Because of this, it is appropriate to ask in what sense social capital is capital at all. For social capital to be regarded as "real" capital, it must meet at least the following criteria: Social capital must be 1) a resource that can be used on demand (Hjerpe 1997, 27). This is exactly how social capital is perceived. However, this does not mean that social capital can be stored or deposited, like "real" capital, to preserve its value. It simply vanishes in the long run if it is not used, as Bourdieu and Putnam both stress. 2) Social capital must, consequently, be accumulable in one way or another (Hjerpe 1997, 27). This view has its problems, though. Social capital is a social structure, pictured as a network, that can be either tight or loose. It is usually loose if the network is very open. If it is closed, it is - at least in principle - tight (Granovetter 1973; Coleman 1988). But if the network is open and loose it is hardly a structure at all; it is then questionable whether it functions as a form of social capital, as a resource. If the network is closed and tight, it may be a rigid social structure insofar as it becomes very costly to its members. For example, members may be forced to submit themselves to actions they do not all approve of. In such a situation, accumulating vast amounts of social

capital makes no sense to individual members. In other words, maximizing the amount of social capital does not lead to a sensible end result because even if social capital has its advantages, it also has its costs, too. Contrary to economic capital, it is more sensible when accumulating social capital to aim for an optimal amount rather than maximizing it (Woolcock 1998, 158). Social capital can actually turn from a resource into a hindrance. Anyone who has broken free of a religious sect, or something similar, can vouch for this.⁴

3) Furthermore, social capital should be a resource that also diminishes when used (Hjerpe 1997, 27). In this respect, too, social capital appears to be different from economic capital. Social capital can, of course, be perceived as diminishing from an individual user's point of view. After receiving a favour, requesting a new one is not easy unless the previous favour has been returned first. On the other hand, if the social network as a whole is mobilized to use its inherent potential, social capital may even increase, as studies on mass movements (see e.g. Ilmonen 1998a), and Durkheim in his sociology of religion, among others, have demonstrated (1980).

Social capital, again, is not capital at all in the same sense as economic capital. When it is also brought up that the former is always personal and concrete, while the latter is increasingly impersonal and virtual, it becomes evident that the concepts of social and economic capital have very little in common. So, why talk about social capital instead of more modestly settling for social resources? It is hard to say, but perhaps putting emphasis on the economy, stressing the importance of the free movement of capital, and - in this time of unrestricted markets - the concept of *capitalperse*, have strong positive auras.⁵ This lures researchers to widen the usage of the concept into areas where it does not fit. On the other hand, an alternative way of referring to the subject matter of social capital only as a social resource would be too general and unclear. This is why the term "social capital" is still used here while at the same time the reader is urged to bear in mind the special nature of this capital.

The complexity of the concept of social capital creates its problems. Social networks, trust and norms can be combined in many ways to bring about the desired outcome: a civilized community. However, the combining can also be done so that the end result is a closed network that oppresses at least some of its members. It may, among other things, prevent them from belonging to other networks. Thus, it raises the question of how to distinguish between these different combinations of elements of social capital, and what

⁴ In relation to social capital, the situation is analogous to over-investment, but only analogous. Over-investment means "lazy" capital, i.e. capital with poor profitability. The over-investment of social capital, in turn, means that it turns from a resource into a hindrance, which over-investment as such does not do.

⁵ While visiting Finland on 15th April 1999, Michael Woolcock suggested, among other things, that even if social capital may not be akin to real capital, the concept is worth adhering to, partly because it smooths the path to "high policy", is interdisciplinary by nature, challenges the prevalent social theories, passes over the problems of more culture-specific concepts, such as comparability of housekeeping practices, and connects with classical sociological views.

consequences these combinations have on the macro level (Woolcock 1998, 158). It is by no means clear that a closed and oppressive network would nurture activities that would support, for example, general social or economic policies, as Putnam seems to think.

The third problem is whether the concept of social capital is a medium or a message in interaction. To be precise, we must ask which of its elements are mediums and which are messages (Woolcock 1998, 156). It may be sensible to think that, like Bourdieu's "field", a social network as such is mainly a tool for its members. But where does trust fit within social capital? On the one hand, trust is precisely that "medium" which binds the network together, but at the same time it is a message about the affinity between its members. One way of making sense of all this is to separate the different levels of trust analytically (Ilmonen et al. 1998, 46–47). When trust is based on rational reflection and knowledge about other people's actions, it is best regarded as having a mainly instrumental value. When, on the other hand, it additionally has a strong emotional component through which it creates a shared identity, it constitutes a message about the medium or the content of that message.

The fourth problem stems from the fact that Putnam and other advocates of social capital see it as a public commodity. As such it is underrated and thus not offered by individual actors, since they do not expect to benefit decently from it (Putnam 1993, 170; see also Olivier 1984). Because of this, social capital can only be generated as a by-product of other collective projects, such as being a member of various associations. However, it is exactly these various associations that have been regarded as the embodiments of social capital (see Putnam 1995). This is why it is difficult to distinguish the sources of social capital from the benefits achieved through it (Woolcock 1998, 156). This may well be the reason why the idea of social capital becomes so easily entangled in normative weightings, and both right-wing and left-wing politics are being defended with it. Social capital has been used as grounds for minimizing state intervention and as a means of controlling the free functioning of the market and liberal economic policy. (To be quite honest, however, Putnam has tended to criticize both extremes in his articles.)

The fifth conceptual problem is that social capital is usually associated with social integration. A "good" society is a strongly integrated society. With this type of thinking, attention is directed at that which binds the members of a society together, while that which sets them apart is disregarded. What is left out of focus, then, is - except on a very general level - the question of which individuals' or groups' interests social capital mainly serves. For example, Putnam assumes that social capital exists between equal parties, but this is not always the case. Putnam hardly addresses those economic and political forces that form the social space and favour one group of people in time and space over another (cf. Saphiro 1997, 9). Because the social world is hierarchical, the exchange of the members of a social network is not, and cannot be, equal between those involved. This arrangement leads to a

who did not belong to a particular clan, then knew what to expect of individual clan members. Their actions were predictable in that they were predetermined by the system of social roles. In the true sense of the word they were not actions at all but forms of behaviour (*ibid.*, 35-37; see also Campbell 1996, 25, 95). Behaviour adhering to a given role was familiar to others and followed the honour code. Thus, it did not require others' trust, but only confidence (Seligman 1997, 37, 79, 95).

The other condition was the erosion of the cosmological wholeness of premodern society, as a result of which communities were divided into public and private spheres. Legitimacy and the problem of confidence, closely connected to it (Seligman 1997, 14-15), were linked to the public sphere and to the administrative decisions made within it. This led to a situation where the problem of trust emerged in the private sphere (*ibid.*, 106). The problem was closely allied to social differentiation, the Reformation, and the process of individualization that gained momentum because of them. On the one hand, the differentiation of society, urbanization and the increased mobility of the population detached the members of pre-modern society from their old family networks. As a result, they were not bound by old roles and expectations to the same extent as before. On the contrary, the differentiation and modernization of societies forced people to assume and reconcile several roles. They could no longer simply behave; they rather became agents capable of doing things differently. Thus an outsider could not know which role, if any, each individual was acting out at any given time. Instead, people met each other ever more as strangers: "others" whose actions were not predictable.

On the other hand, the Reformation strengthened the idea of an individual who was conscious of himself and was, precisely because of that consciousness, forced to choose his own path in this world. In the inner reality of such an individual conscience replaced mercy granted from above and the sense of honour regulated by the family. Conscience was seen as an inner mechanism that turned an individual into a moral agent responsible for his own choices (Seligman 1997, 54). Rather than his will being transparent, it was unclear to the "other". Especially in the case of a "generalized" exchange where a favour might be returned a lot later, people could not know how the other party in the exchange, the moral agent, would act. The dilemma was eased to some extent if his reputation was known, but besides that, all people could do was to trust that he would act morally. Seligman aptly points out that the problem of trust actualizes in cases where nothing else can be done except trust someone (*ibid.*, 21).

Trust is, according to Seligman, connected to individualization. Its central manifestation is a person's ability to change roles and role expectations. Changing roles requires, in turn, freedom from old ties and the ability to use one's potential to act as an agent. Acting as an agent is precisely what is central to trust, Seligman argues. Additionally, there must be a shared view of the other's inner moral value, i.e. that he is personally responsible for his own actions and does not follow some imposed moral code (*ibid.*, 68). If such

a code is followed, though, the other acts in a familiar manner. Then trust does not become a problem (*ibid.*, 70). This is also true of a situation where the other is known to be committed to some strong value ("super good"), as C. Taylor puts it (Taylor 1989, 19–20). This value gives him a steady identity, which makes him familiar to others. In this case, too, the other's actions are predictable and trust does not become problematic (Seligman 1997, 79).

Seligman connects the concept of trust mainly to agency and to a shared view of the other's moral value. At the same time he actually separates trust from social capital, by replacing trust with the concept of confidence, which is specifically connected to strong shared values and identities. These form the basis for the familiarity of another person and for the involvement in associations, too (*ibid.*, 79). If, following Putnam, social capital is seen to materialize especially in the involvement in associations, trust cannot be regarded as its central element, as Seligman does. Here, trust is a resource that becomes available only in unfamiliar, sporadic circumstances. Only uncertainty necessitates trust. One can easily agree with this view but still bring trust safely back into the realm of social capital. As emphasized earlier, it is not necessary to regard associations as the central manifestations of social capital. Their place can be given to unofficial social networks or weak social ties with no institutional (e.g. legal) identity.

Seligman's view of trust implying risk is approved when trust is reserved for "weak" social networks that have been formed by chance. The risk goes two ways. On the one hand, we cannot know if the expectations we have of the other are realistic or not. The latter choice leads us to a difficult situation: we will be let down (Ilmonen et al. 1998, 50). This type of risk can be minimized through exercising power, as also suggested by Niklas Luhman (1979, 112). On the other hand, giving up our own familiar and safe role includes a risk factor. We can never be sure if the other will approve of our switching from one role to another. He may cease to trust us (*ibid.*, 64). This situation can no longer be remedied through the exercise of power. Instead, we should act in such a way as to restore the other's trust.

Both the above risks make trust a very fragile resource that is becoming increasingly rare. Seligman holds the opinion that, if the post-modernists are to be believed, even friendships are void of trust. Rather, they are likened to "socializing with the neighbour's dog" (*ibid.*, 163). Trust becomes thus an empty notion with no point of reference in the modern world. Drawing conclusions as far-reaching as these is hardly necessary, though. Even Seligman offers an alternative way to understand the basis of trust. He refers to Adam Smith and G.H. Mead, who stress that an independent ego is born only in a situation where we are able to detach ourselves and to look at ourselves and others from a distance, through the eyes of the "generalized other". This impartial observer's viewpoint creates the basis for a moral standard that is independent of any outside, collective morality. But as the former imposes complete role expectations on people, the latter explicitly requires discussion about them. At the same time it forces people to reconcile conflicting role expectations, since the "impartial" observer is not just

anyone, as J. Gronow points out in his critique of Seligman, but rather the "generalized other", who embodies several others as well with conflicting interests and role expectations (Gronow 1998, 183; Seligman *ibid.*, 113-114).

External, collective morality is always tied to a place and time: it is the morality of a subculture. Individual morality, in turn, is based on the viewpoint of the "impartial" observer. Being based on the "generalized other", it is paradoxically more common than collective morality. Only common morality creates a basis for an autonomous ego that uses personal discretion. If our starting point is that everyone's ego and moral codes are based expressly on that "impartial" observer's gaze, then the others are, after all, not unknown but familiar to us. However, they are only familiar in the sense that they, too, share the views of that "generalized other", as Gronow forcibly points out (*ibid.*, 183). From this it follows that a basis is laid for a relation of trust between "me" and "others".

The theoretically presented solution to the problem of trust is elegant, but problems emerge when attempts are made to put the solution into practice in a multi-cultural world. A central issue is then the impartiality of the "impartial" observer or the range of the generalized other's gaze. After the cultural turn of sociological research, we know that the epithets "impartiality" and "generality" are myths. Even in small societies with a strikingly uniform culture, there seem to be strong divisions that narrow the range of the generalized other's gaze significantly. These divisions can be based on gender, age groups and different organizational positions at work, for example.

Another problem, at least as great from the viewpoint of trust is that focusing the "impartial" observer's gaze on ourselves requires a distancing act. This has historically led to "housekeeping of feelings", the central feature of which is detaching feelings and actions from each other. It lures people into "playing" with feelings, having a calculated relationship with their own feelings and especially to their expression (see Ilmonen 1999). Strengthening this housekeeping of feelings also restricts the scope of all relations of trust considerably, and stops them developing into strong emotional bonds. This is especially likely to happen when in our everyday life we come into contact with things that erode trust.

The "flexibilization" of working life and the "shareholders first" ideology seem to be things that erode trust, as R. Sennett (1998) and others emphasize. They convey to everyone the simple message that no one should trust their employer, commit themselves to their work organization or build their identity around work. On the contrary, if one wants to get along in the world one must gamble with the risks inherent in changing jobs and be mistrustful of one's current employer. Employees' private lives cannot remain immune from stresses of this kind. Sennett suggests that working life can no longer provide parents with a moral character model for bringing up children, or a model for family life in general. Family life may be (have been?) the strongest bastion of relations of trust (Sennett 1998, 25-26). But these days children learn from their parents that to get on in life they should not trust anyone.

So why should they trust even their own parents (who seem to betray their employers or anyone else as soon as a lucrative opportunity presents itself)? As parents are faced with this sort of challenge, they must work quite hard to maintain their children's trust. Seligman refers to this too (*ibid.*, 165), but further clarifies it: we are all more dependent on trust than ever before, and yet the preconditions for this dependence have been weakened significantly (*ibid.*, 97, 160, 174–175). Attempts at solving this problem have referred to a return to familiarity, to strong group ties (fundamentalism), and yielding to the pressure of the masses, to "other-directedness" (Riesman), and to withdrawing into the private realm.

If trust is understood the way Seligman sees it, the end result is similar to Putnam's conclusion from studying American associations: social capital diminishes. Are we, then, faced with clan-based "amoral familism" or "everyone's war against everyone else" (Hobbes)? This may be an overly pessimistic cultural evaluation of our time. It is based explicitly on the assumption that social networks survive expressly on "strong" ties, familiarity or firm trust. But there may be an alternative reality where social networks based on trust are project-related and constantly changing. Networks can also be weak but still important, as Granovetter emphasises (1973). The people Sennett interviewed, for example, revealed that new jobs are expressly sought with the help of acquaintances, and that the risks involved in changing jobs are minimized precisely through existing social networks.

If trust is, on the whole, as scarce a "natural resource" as Seligman would have us believe, then one might start to wonder if it has ever emerged in a "pure" form in the wake of modernisation. If this suspicion proves correct, the notion of trust might appear to have very little use in the social sciences, as it would not have a counterpart in social reality. At the same time the whole idea of social capital would become obsolete.

There is another option, however. We do not have to think, like Seligman, that trust exists as a distinct social mechanism. Even friendship, a prime example of a relation of trust, is based not only on trust but also on familiarity. Friends know each other, and this familiarity is an integral part of trust. In my view it can be justifiably assumed that even today a relation of trust does not exist in a pure form without any connections to outside social reality. In this respect, Seligman's way of likening trust to an individual's relationship with God is misleading. In the end, neither trust nor any other social mechanism comes about or can be sustained in isolation from other social mechanisms and practices.⁶

⁶F. Tonkiss and A. Passey, among others, demonstrate how charity organisations have always wavered between two "logics". The first has to do with charity and the other with performing well. In other words, wavering has taken place between the original cause of the existence of the charities and their functional efficiency. Charity connects to the faith that organizations really fulfill their original mission irrespective of who the needy are. Good performance, in turn, is linked to the confidence that the organisations do their duties well. These two expectations are intertwined and not necessarily conflicting. However, the closer to modern times researchers have come, the more pressure has put on the organisations to manage the latter duties at the cost of the former (1999, 261, 272). What is true of charity organisations appears to apply to many other voluntary organisations too, such as consumer cooperatives and the trade union movement (Ilmonen 1986; Ilmonen and Kevätsalo 1995).

The critique of Seligman could be taken further with the forceful argument that he, while underlining the difference between trust between people and confidence felt towards institutions, fails to see the similarities between the two. Discerning the similarities is easiest when concentrating on the content of trust rather than on its object. Then it can be observed that both trust between people and confidence felt towards institutions refer to the same thing: the future and its predictability. Trust is invested in people and things precisely because they have features that make the future controllable. Just as a friend's familiarity is a reason to trust his or her word, an institutional practice (such as a comprehensive incomes policy agreement) guarantees that those who are parties to it can trust each other. It is the time perspective itself, rather than the object, that makes trust a central mechanism of social activity. As J.M. Barbalet suggests, pride refers to an actor's past, whereas trust refers to the future. Although Barbalet used the term "confidence" instead of "trust", this applies equally to the notion of trust. It is a social mechanism through which the possible can be brought into the present (1998, 86-87), thereby diminishing the complexity of the future (Luhman 1979, 112).

In the end, it is plausible that trust - if seen in the Seligmanian way - functions only in an institutionally stable environment. The negotiations concerning roles entailed by trust cannot be carried out in just any circumstances. Rather, secure circumstances are called for, where the use of force and violence, among other things, is ruled out. Only under such circumstances are the actions of "others" predictable enough, so that their presence does not pose a threat to the ego. In other words, I am trying to convey the idea that if the future is controllable, even if only on an imaginary level, trust is created - regardless of whether it is people or institutions to which the feeling of being in control can be attributed. Trust is always stronger when it is backed up on a personal level by institutional modes of action that are relatively stable and familiar to the members of a given society. If they are missing, then and only then will trust become a rare natural resource, and a clan-based institutional system, "amoral familism", will replace it. However, I do not have strong empirical evidence to back up my idea, although a study on Finnish working life conducted last year accords with my views (Ilmonen et al. 1998). Relations of trust between the leadership of an organization and the representatives of the trade union movement involved function well if stable institutional modes of action backing them up are present (such as an open flow of information, inclusion of both parties in the development of activities, etc.). The different parties appear to work together in such organizations in a more "civilized" manner - just as Putnam saw happening in Northern Italy.

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Social Networks as Capital

Network Cohesiveness as Determinant
of Instrumental Benefits and Basis of
Co-ordination in a Public Organisation

Jan-Erik Johanson

Abstract

The aim of this study was to assess the significance of social capital in a public organisation according to two theoretical frameworks. Following the structural hole theory (Burt 1992), sparse social networks enable actors to gain control and information benefits. According to the social capital theory (Coleman 1988), a cohesive social network creates trust and commitment to co-operation. Theories describe favourable outcomes of opposite poles of social structure, but the discussion shows that it may also result in negative outcomes if there are unfavourable situational factors. Empirical findings indicate that a sparse social network increases the employee's indirect control and speed of information retrieval.

The results concerning the amount of information were contrary to those expected, which may reflect not only negative outcomes of social structure under unfavourable situational factors, but also the importance of cognitive factors in evaluating the amount of required information. Moreover, a dense social structure increases trust in the democracy of decision-making, but does not affect organisational commitment. In conclusion, the findings suggest that in order to maximise favourable outcomes of the social structure, a balance between dense and sparse social networks might be needed.

Introduction

Social capital is often functionally defined as those aspects of social structure which actors can use as resources for the realisation of their interests (Coleman 1990, 305). In this sense, members of a social structure are

investors who wish to profit from their investments (Burt 1992, 46). The analysis of social capital complements the discussion of physical, human (Becker 1964) and cultural capital (Bourdieu 1989). Even though maintaining a social structure requires time and effort on the individual's part, the benefits are at least partially dependent upon the objectives and behaviour of other actors in the same social network (Coleman 1990; Johanson – Uusikylä 1998). Therefore, social capital is unique in that it does not lend itself to full ownership by any individual or group in the social network.

There are two main approaches to the analysis of social capital. According to the first approach, social structure helps in acquiring control and information benefits in a competitive environment (Burt 1992; Friedman - Krackhardt 1997; Gabbay- Zuckerman 1998). In the second approach, social structure helps remove barriers to co-operation and economic transactions; it can instil trust and commitment to co-operation amongst members of the social structure (Coleman 1988; Putnam 1993). While sometimes the two are viewed as somewhat contradictory due to the level of analysis (Podolny - Baron 1997), the different approaches reflect opposite sides of a beneficial social structure (Johanson - Uusikyla 1998). A social structure which provides control and information benefits is likely to be different from one which facilitates the formation of trust and commitment to co-operation.

The aim of this study was to analyse the significance of an intra-organisational network in a public organisation. The social capital theory (Coleman 1988, 1990), which has been extended to cover whole societies (Putnam 1993), together with the structural hole theory (Burt 1992) provide the theoretical base for empirical analysis. The aim of the discussion is to show that these two theoretical frameworks describe favourable outcomes of two poles of social structure and that situational factors also play an important role in defining the benefits produced by social interaction.

Social capital in networks

It has been argued that a group of three actors (triad) is a fundamental type of social structure. In a group of two actors, conflict easily leads to polarisation of views, but in a triad the third actor can mediate conflicts between the two others. In addition, the pressure imposed by the majority is relevant only in groups consisting of at least three actors. Moreover, the threat of leaving the group has little impact on triads, as any one actor leaving the group does not dissolve it totally (Krackhardt 1999). Both social capital (Coleman 1988) and structural hole theory (Burt 1992) can be presented as triadic structures, although neither theory is confined to the analysis of small groups (Figure 1).

Structural holes as key to control and information benefits

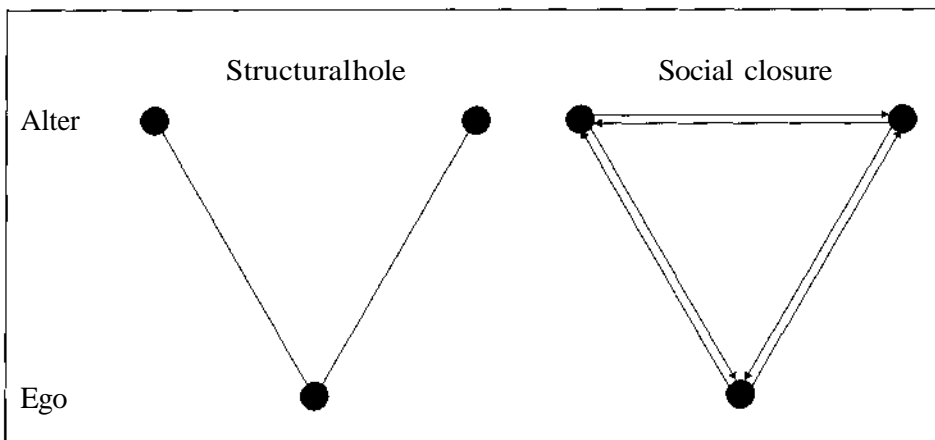
The structural hole theory makes use of the central concepts and findings of social network analysis. One such finding is the strength of the weak tie thesis (Granovetter 1973). New information is likely to circulate through occasional

ties between otherwise unconnected social groups. An actor who holds a connecting position between two unconnected groups gets information faster than others. For instance, information about new job opportunities is likely to be transmitted first to those holding connecting positions.

Structural hole theory is a generalisation of the strength of the weak tie thesis. However, the starting point of structural hole theory is not the strength of ties between actors in a social structure, but the existence of ties as such. Structural hole refers to the absence of ties between actors in a social structure. The analysis is not confined to the examination of information, but also deals with the acquisition of control. The basic idea behind structural hole theory is that actors can advance their competitive position by optimising their social network to maximum benefit with minimum effort. In this sense, the sparse social network with the most structural holes is also the most conducive to gaining competitive advantage (Burt 1992, 26-34).

The number of ties in itself is insignificant; what counts is how actors' ties fill the structural holes in the social network. In a competitive environment, structural holes offer tempting opportunities for exploitation. In social closure, where alters are connected together, the ego's quest for control and information benefits is restricted (Figure 1). An ego who is situated in a structural hole between two unconnected alters is likely to obtain more beneficial information. Structural holes enhance information retrieval in three different ways; firstly, their existence provides information sources to an actor which are not accessible to others in the network. Therefore, the actor acquires a competitive advantage over others because of his additional knowledge. Moreover, social capital is thus transformed into individual property, i.e. into human capital (Ibid.).

Figure 1. *Structural Hole and Social Closure*



Secondly, the position in a structural hole speeds up the circulation of information so that the ego gets information quicker than others. For instance, an early hint of redundancies may help an employee in securing his or her own job as opposed to an employee who reads about the redundancies in a newspaper. The third advantage of structural holes is found in the alternative channels toward decision-makers. An actor who occupies a position in a structural hole can channel positive information to upper levels of the hierarchy through various alternative indirect routes. What is more, the information not useful to an actor can be fed to his/her own network, thus creating a debt of information for which payback can be expected in the future (Burt 1992, 13-14).

Structural holes can also be used for manipulation, which provides control benefits (Burt 1992, 30-32). A classic example is an entrepreneur who uses the disconnection of two buyers to increase the price. Although 'control' is the notion used in structural hole theory, a central characteristic of control is that there is either an explicit or implicit assumption of acceptable behaviour (Horwitz 1992). Particularly in public sector organisations, control refers to monitoring and evaluating activities which may result in intervention if the behaviour of employees is not in line with the officially stated rules and objectives (Wirth 1986). In structural hole theory, the control benefits may be used for advancing any behaviour, unlimited by rules or moral boundaries. Therefore, the implication of control in the structural hole theory is not far from the relative interpretation of power, which states that A has power over B to the extent that A is able to make B do something he/she would not otherwise do (Dahl 1961).

There are two means of controlling a structural hole. If an actor is able to see the benefits they bring about, he/she is also likely to avoid the restrictions produced by a dense social structure. The first option is to replace contacts in a dense social structure with contacts in a sparse social structure. Alternatively, extending the original network to new partners who are unconnected to the members of the original network might also be a suitable strategy to achieve control benefits. For example, an actor could incorporate a competitor of an existing partner into his/her network. In this way, an actor could play network partners against each other (Burt 1992).

Social closure as a source of trust and commitment

The structural hole theory represents an instrumental interpretation of the value of a social network, whereas social capital theory reflects a view of social networks as a source of trust and commitment. According to the social capital theory, it is useful even for a rational actor to commit to co-operation with other actors in a social network. A dense social network creates trust and commitment to co-operation, which in turn facilitates economic transactions (Coleman 1988).

A tightly-knit social structure facilitates economic transactions in two major ways, by 1) creating circulation of credit slips, and 2) lowering transaction

costs. Circulation of credit slips is connected to the reciprocity of transactions. In a tightly-knit social structure, an actor can be relatively sure that time and effort invested in the social structure are returned in the future. In this way, it is possible to build credit associations in which members of the social structure invest money in a common fund. In turn, these provide loans to every member of the association. A tightly-knit social structure can lower transaction cost, because in a dense social structure actors need not rely on formal control or contracts (Coleman 1990).

The cohesion of social structure may result in a fortuitous circle in which trust increases co-operation and, in turn, co-operation increases trust among members of the social structure (Putnam 1993,171-172). Even so, the formation of the fortuitous circle requires the existence of favourable social norms (Coleman 1990). A dense social structure, which is based on reciprocal links between the actors - social closure (Figure 1) - provides a good structural platform to enforce the fulfilment of obligations and return of credits (Putnam 1995).

In a similar fashion, as actors may try to increase their control and information benefits by moulding their network into a sparse social structure, members of a sparse social structure may also try to increase connections amongst its members in order to establish trust and commitment. Still, the formation of ties between other members of a social structure might prove a difficult task. For a single actor in a social structure, this would require creating ties between other members with whom the actor has no direct contact. In the end, it may well be that tightening the social structure in order to create trust and commitment might prove more difficult than finding structural holes for exploitation.

Even in a dense social network, numerous ties are not conducive to the formation of trust and commitment if actors are not equal in the network. In vertical networks the circulation of information is unreliable; information is not transmitted from lower to upper levels of the hierarchy because it is beneficial for subordinates to conceal some of it from managers. In a hierarchy it is not an easy task to enforce reciprocity of transactions, as sanctions are seldom applied to the upper levels. The contradiction between the social capital theory and the structural hole theory is evident here. In terms of trust and commitment, the situation in which the ego resides in a structural hole is one of the least favourable. For instance, a social structure between a manager and two unconnected subordinates neither creates interdependence nor prevents mutual alienation of the subordinates. The interaction takes place vertically between the supervisor and the subordinates, so mutual obligations become unilateral duties of the subordinates. When dependence replaces reciprocity the incentives for opportunistic behaviour also increase accordingly (Putnam 1995, 174-175). Consequently, vertical interaction may give rise to a circle of mistrust, in which exploitation by the manager creates shirking by the subordinates.

Still, dense social structures may have harmful consequences beyond the loss of control and information benefits, as highlighted in the structural hole

If we consider both control and information benefits at the same time as trust and commitment to co-operation, another interpretation comes to the fore: social capital may be short of maximal at both ends of the continuum between sparse and dense social networks. The maximally sparse social network could decrease co-operation to the extent that members of the social structure would become unable to agree on the basic rules necessary for competition (Wallace 1970). Likewise, maintaining a dense social network could require such individual investments of time and energy that interaction would pose a threat to efficiency. Therefore, in order to maximise both types of benefits of the social structure a balance of social capital is probably found somewhere in the middle ground between the sparse and dense social networks.

The method

The study was carried out in one social and health sector organisation (n=4 200) in Garden City (pseudonym). The city has about 180 000 inhabitants and is one of the largest in Finland. The organisation was created when separate social and health organisations were integrated in 1992. The new organisation consists of nine units; five are based on provincial boundaries, three units have a centralised function, and a planning and development unit co-ordinates the budgetary process. As a result of the unification, units were given more financial freedom by the introduction of a new budget system. Practices such as management by results are used to stress the importance of efficiency.

Research respondents

The data consisted of relational and attitudinal measures of 172 employees in the social and health organisation. Some 87 percent of the respondents were women and the average age overall was 47 years. The educational level of respondents reflected the professional nature of their social and health duties, as 70 percent held a university degree or equivalent. Response numbers from individual work units ranged from 8 to 29. Equal percentages (47 %) had come from the former social and health organisations, while the rest (6 %) originated from other parts of the city administration.

All of the hierarchical levels are represented in the data. Nine of the ten unit heads took part in this study. Nearly 42 percent of the respondents performed some type of supervisory function, having at least one subordinate, and the rest were operative level employees. Among all respondents the average tenure in the city administration was 16 years, which indicates not only the low turnover in the organisation, but also the rapid expansion of social and health services in Finland during the 1970's.

Procedures

The empirical evaluation of the theoretical assumptions required the use of both relational and attitudinal data from the same research subjects. The gathering of relational data began in the summer of 1994 and terminated in the summer of 1996. Attitudinal data were gathered in the summer of 1996. Relational data were gathered using the snowball-sampling procedure, which is in many ways superior to other forms of network data gathering. For instance, all the actors do not have to be named in advance and new actors can be included at subsequent steps of data gathering (Doreian and Woodard 1992).

In addition to the top manager, unit heads of financially independent units were chosen as first-level respondents ($n=10$). During individual interviews, a pen and pencil questionnaire was given to the respondents. Respondents were asked to name at least ten individuals whom they considered important in their work. After identifying their social networks, respondents were asked to state their relationships with these actors. The question was "Which of the actors do you give advice to or ask advice from?" They were asked to evaluate the frequency of their contacts in the advice network with a four point scale: 1) we meet infrequently, 2) we meet a couple of times a month, 3) we meet a few times a week, and 4) we meet daily. Contacts occurring at least a few times a week were used as the cut-point for dichotomization, which means that only the strongest social contacts were incorporated in the actual analysis.

The 66 second-level respondents identified by first-level respondents were contacted by telephone and the same questions put to them. In addition, 156 third-level respondents received a mailed questionnaire. A total of 232 employees were thus identified in these three levels of data gathering. At some stage, any snowball sampling has to be terminated. The most convenient strategy is to end data gathering when most of the new contacts have already been cited by the respondents on the previous levels (Wasserman and Faust 1993). With this procedure sampling goes on until a certain saturation point is reached. In this case no such saturation point was reached at the second or third level, and the network seemed to enlarge exponentially beyond this point. Therefore, no fourth-level respondents were approached.

The social network identified in the gathering of the relational data provided the basis for gathering the attitudinal data. The same 232 employees received a mailed questionnaire containing questions related to their work and work environment. In addition, the respondents were asked to state the number of subordinates they had and their educational background. All in all, 172 responses to both attitudinal and relational parts of the data were obtained, which corresponds to a response rate of 74 percent.

The data were analysed using multiple regression analysis. Because standard statistics programmes do not include modules for the examination of network data, relational indices were calculated with the help of the Ucinet software package, which was developed to analyse properties of network data (Borgatti et al. 1999).

Independent measures

The explanatory variables reflected the employee's position in the advice network within the social and health organisation. By default, advice is asymmetric, so that giving advice is not automatically reciprocated. In other words, an advice network is an asymmetric network in which the maximum number of ties is $n(n-1)$. Network density offers a simple way to operationalise the cohesiveness of a social network. In practice, network density (d) is obtained by contrasting the actual number of ties (l) with the theoretical maximum: $d=l/n(n-1)$. If the network is totally disconnected the network density will be 0, and in case of maximum cohesiveness the density will be 1.

Network density was calculated on three levels of measurement. Firstly, the density of the employee's direct network was calculated. The density of a direct network is dependent upon the number of connections taking place between the ego's direct contacts. Secondly, the density of the indirect network was calculated by taking into account the connections between employees reachable through one intermediate¹. Thirdly, the cohesiveness of the work unit was taken into account by contrasting the actual work unit interactions to the situation in which all employees in a unit would be connected. The first two relational indices cover only a limited portion of all the interactions taking place in the social structure, thus reflecting features of both the personal and extended personal networks.

Dependent measures

In the questionnaire, respondents were asked to state to whom they would turn if they encountered a problem they were not able to solve alone. This question was used to measure an employee's indirect control. A single employee received a maximum number of seven nominations from colleagues, but most employees were not mentioned at all. Therefore the distribution of the variable measuring indirect control proved to be highly skewed, and was corrected by a logarithmic transformation. The speed of information retrieval and access to the sources of information were also measured in the data. Respondents gave Likert-scale scores to the following: 'I get information about changes in my own work very quickly', and 'I often have to make decisions without sufficient information'.

On the basis of an example provided by previous research (Putnam 1995), trust was approached in terms of decision-making. Employees stated their opinions in several Likert-scale items concerning various aspects of the democracy of decision-making. Commitment to co-operation was measured using items measuring organisational commitment. Employees gave their

¹ In the analysis of ego networks it is customary to consider only the density of the direct network. The reason for this practice is usually found in the data-gathering procedure. Ego-centric network data consist of the ego's direct ties and the connections between these but exclude the overall social structure. In this case the total network data were available, which enabled the use of indirect density measures. Moreover, the theoretical discussion implies that indirect linkages are important, at least concerning information benefits.

opinion to Likert-scale questions concerning their affective commitment to the organisation (Allen and Meyer 1990) as well as their intent to stay in it (Mueller et al. 1992). Reliabilities of scales and scale items are represented in Table 1.

Table 1. Reliability of Scales and Scale Items

Organisational commitment $\alpha=0,72$		Trust in the democracy of decision-making $\alpha=0,74$	
1	*It was definitively a mistake to come to this workplace.	1	*Employees are not usually informed about decisions taken by managers.
2	*I don't feel like part of the group here.	2	Managers encourage employees to express their opinions.
3	*I have thought of changing my employer in the near future.	3	*Managers are unwilling to transfer decision-making powers to their subordinates.
4	This is the best workplace in which I have ever worked.	4	Employees usually have a say in decisions that affect their own work.
5	I'm proud to tell others I'm working for this organization.	5	Important decisions are usually made together.
6	I work very willingly in this workplace.		*reverse-coded

Control measures

Hierarchy and division of labour constitute the basis of any organisation, so it is important to take them into account in the analysis of instrumental benefits and prerequisites for co-operation. The hierarchical position in particular is closely connected to the idea of a structural hole. A standard image in organisational charts is a chain of command in which the manager co-ordinates the duties of unconnected subordinates. Likewise, the position of managers, either between levels of hierarchy or between the organisation and its environment (Child 1984), puts managers in a liaison role which may give them a head-start in acquiring new information as compared to shop-floor employees.

Especially in the public sector, employees not only need highly specialised knowledge in performing their duties, but also formal qualifications - 'degrees' - in order to gain employment in the first place. One of the consequences of specialisation is the formation of powerful professional groups able to control the content of professional work (Macdonald 1995). Moreover, membership in a professional group may well decrease commitment to a particular organisation, due to the dual commitment to one's professional group on one hand and to the organisation on the other (Cohen 1995). In practice, the number of subordinates and the level of education (Statistics Finland 1997) were included in the analysis to control for the effect of hierarchical position and functional specialisation.

Results

The results of regression analyses are presented in Tables 2 and 3. The inclusion of several network measures from the same relational data may pose problems if the measures correlate strongly. In this case, the intercorrelation of network measures was not substantial; the highest correlation was found between work unit density and density of the direct network ($r=0.25$ $p<0.01$). However, in interpreting density measures one needs to take into account that the denser the social network the fewer structural holes there are.

Table 2. *Results of Regression Analyses Explaining Indirect Control, Speed of Information Retrieval and Access to Sources of Information*

Regression co-efficient (standard errors in parenthesis)			
Variable	Model 1 Indirect control	Model 2 Speed of information retrieval	Model 3 Access to information
Constant	0.33 (0.20)	3.91** (0.47)	2.59** (0.46)
Density of direct network	-0.41* (0.18)	0.52 (0.45)	1.41** (0.43)
Density of indirect network	-1.19" (0.40)	-2.52* (0.96)	-0.94 (0.93)
Density of work unit network	0.25 (0.33)	-0.02 (0.79)	-0.08 (0.77)
Level of education	0.07* (0.03)	-0.03 (0.08)	0.05 (0.08)
Number of subordinates (ln)	0.06** (0.01)	0.03 (0.03)	-0.03 (0.03)
	$R^2=0.36$	$R^2=0.07$	$R^2=0.09$

Note: * $p<0.05$ ** $p<0.01$

Considering that the data were based on survey questionnaires, the proportion of explained variance was rather high for explaining indirect control of employees, but low for assessing information benefits. This result does not contradict the structural hole theory, which sees structural holes as a critical resource in competition between otherwise equal partners. The findings provide some evidence for assumptions of favourable outcomes of a sparse social network for an ego. A social network in which an actor obtains a position in a structural hole increases her control over others and speeds up information retrieval.

The results concerning access to the sources of information were contradictory to the basic assumptions of the structural hole theory. This may reflect the negative consequences of a sparse social network under

unfavourable situational factors. However, the number of structural holes was not connected to the hierarchical position of employees. The highest correlation between hierarchical position and network indices was found between work unit density and hierarchical position ($r=-0.11$ $p>0.05$). Hence, a suitable position in the social network helps employees to balance control and information advantages provided by the formal position.

The finding that structural holes were detrimental in terms of access to information even though they did not coincide with the hierarchical position may well refer to cognitive features in evaluating the amount of required information. A dense social structure is often saturated with information, even to the extent that everyone possesses roughly the same information. Therefore, a member of a social group does in fact receive most of the information circulating in a cohesive social structure. Moreover, the discrepancies between levels of knowledge among members of a tightly-knit social group are likely to be low, which implies that social comparisons are difficult to make. As a sparse social network is less prone to become saturated with information, the employees are unlikely to express that they feel in full command of information. Consequently, improved access to sources of information also helps employees to see deficiencies in their stocks of knowledge.

Table 3. Results of Regression Analyses Explaining Trust in Democracy of Decision-making and Organisational Commitment

Regression co-efficient (standard errors in parenthesis)

Variable	Model 1 Trust in democracy of decision-making	Model 2 Organisational commitment
Constant	12.06** (1.37)	28.10** (1.77)
Density of direct network	2.23 (1.29)	-0.81 (1.67)
Density of indirect network	-2.81 (2.78)	-5.30 (3.60)
Density of work unit network	5.27* (2.29)	0.28 (2.95)
Level of education	-0.04 (0.23)	-0.67* (0.29)
Number of subordinates (ln)	0.39** (0.08)	0.14 (0.10)
	$R^2=0.24$	$R^2=0.05$

Note: * $p<0.05$ ** $p<0.01$

The significance of indirect network density in defining control and information benefits is important. The structural hole theory acknowledges that structural holes beyond those between direct contacts might also increase the ego's control and information benefits. However, the empirical measures suggested by this theory are based on analysing the cohesion only between the ego's direct contacts (Burt 1992, 126). The result obtained here suggests that the analysis of cohesion in a direct network gives too negative a view of the benefits provided by structural holes. Moreover, it is noteworthy that control and information benefits are dependent upon those whom the actor has not directly selected into his/her social network. Conscious acquisition of structural holes thus becomes extremely difficult, as the actor should take account of the cohesion of both direct and indirect networks when choosing his/her network partners.

Trust in the democracy of decision-making and organisational commitment were affected neither by direct nor indirect network density. Here, one needs to take into account the significance of the level of analysis. Both direct and indirect network densities describe a restricted part of the social structure, whereas trust in the democracy of decision-making and organisational commitment represent characteristics of the organisation as a whole. Consequently, favourable micro-level interaction patterns are not enough to produce positive macro-level outcomes. Even so, direct or indirect network densities did not prove to decrease trust or commitment either, which would have been a plausible outcome of interactions within dense but isolated social groups.

More important to the social capital theory is the connection between trust in the democracy of decision-making and work unit density. Work unit density increases trust in the democracy of decision-making, which represents some evidence for the favourable outcomes of a cohesive social structure. Organisational commitment was not affected by any of the network measures, however, which implies not only the dual commitment of professional groups to their professional association and their organisation, but also that the environment of the organisation might pose obstacles to co-operation which cannot be surmounted solely by appropriate structural conditions or intra-organisational norms.

Both the structural hole theory and the social capital theory received some empirical support from the findings of this study. Nevertheless, the favourable social patterns of these models differ from one another. Superficially examined, it would appear that tightening the social structure could enhance the prerequisites for co-ordination, but at the same time actors would lose some of their control and information benefits. It might be that neither a maximally sparse nor a maximally dense social network is optimal for the development of social capital if we consider both types of benefits simultaneously. Consequently, social capital might be maximised somewhere between sparse and dense social networks. However, one needs to recognise the differences on the basis of the explanation of the various benefits provided by social interaction. Both control and information benefits

emerge from the sparse personal or extended personal network, but prerequisites of co-operation are fortified by cohesion on the work unit level. This leads to a problem between individual and collective action. Thus, employees may have sparse personal networks which provide instrumental benefits and do not pose a threat to co-operation, as long as not too many of their colleagues have equally sparse networks.

Conclusions

The aim of this study was to assess favourable outcomes of sparse and dense social networks according to two different models. Following the structural hole theory (Burt 1992), empirical evidence gave partial support for the control and information benefits provided by sparse social networks. On the other hand, dense social networks encourage the prerequisites for co-operation as described by the social capital theory (Coleman 1988). Those findings are not contradictory, as the outcomes predicted by the two theories are also different. However, the results do have a bearing when examining the preferred form of social network. It seems the simultaneous provision of instrumental benefits and prerequisites for co-operation requires a balance of social capital somewhere in the middle ground between sparse and cohesive social networks. It would nevertheless be hasty to conclude that in order to maximise social capital, everyone should participate in social interaction in a similar fashion. It may well be that employees' sparse personal networks provide efficiency to organisational communication; they do not undermine the basis of co-operation as long as the majority of employees participate actively in the social interaction.

According to the results, gaining benefits from the social network requires detailed knowledge of the social structure as a whole. The benefits are partially dependent upon the connections between those actors that an ego can reach only through indirect links. However, an employee's possibilities to influence the structure of a social network beyond direct contacts are very slim. Although he/she could try to find a more favourable social network, in a work environment this would necessitate a change of workplace, which is not an easy option to take. Consequently, actors need to consider the structure of the total network when choosing their direct contacts. They also have to adjust somewhat to the restrictions imposed by the social network.

The significance of indirect contacts is also methodologically relevant. The gathering of total network data is usually a time-consuming and arduous procedure. One alternative for bypassing this problem is the use of egocentric network data which contain information on an ego's direct contacts and on contacts between them. The egocentric network data can be gathered through standard survey instruments. The results obtained here nevertheless indicate that egocentric data may give too negative a view of the favourable outcomes of sparse social networks. In fact, they may totally ignore the favourable effects of a dense social structure.

The starting point of this study was the connection between sparse social networks and instrumental benefits on one hand and the favourable outcome of dense social networks in terms of trust and commitment to co-operation on the other. Indirect control emerged as the bridge between trust and a sparse social network. If employees cannot resolve a problem, they turn to the occupants of structural holes for a solution. As structural holes were unconnected to the hierarchical position of employees, they appear to be informal channels of knowledge transmitting new information throughout the organisation. However, disconnection of the formal position from structural holes may well diminish formal authority to the extent that the informal network becomes a quasi-hierarchy.

Patterns of interaction do not exist in a social vacuum, so the benefits of a favourable social structure might not be realised if connected to unfavourable situational factors. Status differences between actors may well thwart the positive outcomes of a sparse social network, whereas hostility towards outsiders could result from interaction in a dense but isolated social structure. Here, the results suggested that the connection between sparse social networks and information benefits is not straightforward. Moreover, empirical evidence also provided some support for the influence of extra-organisational factors in defining the prerequisites of co-operation. Further research is needed to examine to what extent the benefits derived from social networks are conditioned by the situational and external factors of the social structure. The importance of situational and external factors does not necessarily diminish the value of a social network. Instead, enlarging the scope of relational analyses may well enable the identification of types of social structure which could better satisfy both organisational goals and employee needs.

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Abstract

In recent years, social capital has emerged alongside natural resources, man-made physical means of production and know how (natural capital, other physical capital and human capital) as a factor used to assess developmental disparities between countries. Social capital refers to the communal characteristics which manifest themselves in e.g. trust, reciprocity and networks. In terms of policy-making, the relevant question is how to assess and reinforce social capital. The questions posed in the report, on the other hand, concern the conceptual nature of social capital and its relationship with other concepts related to capital. Trust and the forces that keep communities intact and functional are generally debated issues in social science.

This collection of articles is mainly based on the papers and commentary presented at an international seminar held in Helsinki on 15 April 1999. The articles discuss problems associated with the concept of social capital and its definitions and shed light on the possibilities of this concept in concrete welfare policy contexts.

Key words: social capital, social economy, civil society, partnership

Tiivistelmä

Sosiaalinen paaoma on noussut luonnonvarojen, tuotantovälineiden ja osaamisen (luontopääoman, muun fyysisen paaoman ja inhimillisen paaoman) rinnalle viime vuosina etsittäessä syitä maiden välisiin kehityseroihin. Sosiaalisella pääomalla viitataan sellaisiin yhteisöllisiin piirteisiin, jotka ilmenevät esimerkiksi luottamuksena, vastavuoroisuutena ja verkostoina. Poliitiikan kannalta kysytään silloin, miten sosiaalista paaomaa voidaan arvioida ja vahvistaa. Tutkimuksen kysymykset taas koskevat sosiaalisen paaoman käsitteellistä luonnetta ja suhdetta muihin pääomakäsitteisiin. Luottamus sekä yhteisöjä koossa ja käynnissä pitävät voimat ovat yleisen yhteiskuntatieteellisen pohdinnan ajankohtaisia kohteita.

Suurin osa kokoelman kirjoituksista perustuu Helsingissä 15.4.1999 järjestetyn kansainvälisen seminaarin esitelmiin ja kommenttipuheenvuoroihin. Artikkelit kasittelevat sosiaalisen paaoman kasitteeseen ja sen määrittelyyn liittyviä ongelmia sekä esittelevät mahdollisuuksia soveltaa käsitettä hyvinvointipolitiikkaan liittyvissä konkreettisissa yhteyksissä.

Asiasanat: sosiaalinen paaoma, sosiaalitalous, kansalaisyhteiskunta, kumppanuus

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